# Annual Report 2013

MANDATUM LIFE

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# Board of Directors' Report 1 Jan–31 Dec 2013

## Life insurance industry in Finland in 2013

Measured in terms of premiums written, the life insurance sector grew substantially in 2013. According to the Federation of Finnish Financial Services' statistics, the total premiums written of life insurance companies operating in Finland increased 40 per cent from the previous year to EUR 5.4 billion (3.8 in 2012). Unit-linked premium income increased 54 per cent in the sector, reaching EUR 4,558 million (2,952), and its share of the whole sector's premium income rose to 85 per cent (77). Premium income from with-profit insurance policies decreased 8 per cent to EUR 824 million (891).

Among the product areas, capital redemption policies experienced the strongest growth, with an increase in premium income of 85 per cent to EUR 1,965 million (1,063). The growing popularity of investment and savings products was also reflected in premiums written on life insurance savings policies, which increased 47 per cent from the previous year and amounted to EUR 2,218 million (1,506). Premiums written on pure life and disability insurance, excluding employees' group life insurance, totalled EUR 340 million (331). Premiums written on employees' group life insurance stood at EUR 42 million (42).

The new amendments that came into effect as of the beginning of 2013 weakened the terms pertaining to the right to deduct pension savings contributions in taxation, and premiums written on individual insurance policies continued to decline, totalling EUR 539 million (589). Premiums written on group pension insurance declined 11 per cent as a result of a 16 per cent decrease in with-profit premiums. Premiums written on unit-linked group pension insurance policies remained on a par with the previous year's level, at EUR 96 million.

Premiums written on insurance policies sold to private persons increased 48 per cent and were EUR 4,284 million (2,891). Premiums written on corporate policies grew 15 per cent and totalled EUR 1,098 million (952). Households' share of the total premium income in the sector increased to 80 per cent (75).

Insurance savings in the life insurance sector increased by 11 per cent during the year and amounted to EUR 38.3 billion (34.5). Unit-linked insurance savings grew 28 per cent to EUR 21.5 billion (16.8). Households accounted for a 72 per cent (71) share of the sector's insurance savings.

## Operating result

Mandatum Life's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The parent company's separate financial statements have been prepared in accordance with Finnish Accounting Standards. The profit shown in the consolidated financial statements differs from the parent company's profit mainly due to differences in the recognition principles for investment activities.

Mandatum Life Group's total result at fair values after taxes was EUR 220 million (286), of which the change in fair value reserve was EUR 101 million (177).

The Group's IFRS profit before taxes was EUR 153 million (136), and profit after taxes EUR 119 million (108). The Baltic subsidiary recorded a loss of EUR -0.5 million (0.8). The parent company's profit for the year according to Finnish Accounting Standards was EUR 174 million (105).

The Group's IFRS solvency capital was EUR 1,403 million (1,391). The parent company's solvency margin, calculated in accordance with the Finnish Accounting Standards, was EUR 1,385 million (1,378), i.e. 6.3 times the required minimum. The parent company's solvency ratio was 27.7 per cent (27.8).

Mandatum Life Group's consolidated balance sheet total was EUR 10,172 million (9,480), of which the share of capital and reserves was EUR 1,260 million (1,140). Capital and reserves include the investment fair value reserve, which, less the tax liability, amounted to EUR 492 million (391).

## Gross premiums written

Mandatum Life Group's gross premiums written before reinsurers' share totalled EUR 1,068 million (983), and premiums written on its own account totalled EUR 1,063 million (977). Rein-

**INCOME ANALYSIS**

| | Group, IFRS | | |
|---|---|---|---|
| EUR million | **2013** | 2012 | Change |
| Total premiums written (on own account) | 1,063 | 977 | 86 |
| Investment income and charges, revaluations and revaluation adjustments | 568 | 573 | -5 |
| Claims paid | -740 | -714 | -26 |
| Change in technical provisions before bonuses | -638 | -598 | -40 |
| Net operating expenses | -96 | -96 | 0 |
| **Technical result before bonuses** | **157** | **143** | **14** |
| Other interest expenses | -7 | -7 | 1 |
| Other income and expenses | 6 | 3 | 2 |
| **Operating profit** | **156** | **139** | **17** |
| Customer bonuses | -3 | -3 | 0 |
| **Profit before extraordinary items, appropriations and taxes** | **153** | **136** | **17** |
| Taxes | -33 | -28 | -6 |
| **Profit for the financial year** | **119** | **108** | **11** |
| | | | |
| Change in fair value reserve | 101 | 177 | -77 |
| **Profit at fair values** | **220** | **286** | **-66** |

surance assumed accounted for EUR 4 million (2) of the gross premiums written. The Group's direct insurance premiums written amounted to EUR 1,064 million (981).

## Activities in Finland

Mandatum Life's core sales areas are unit-linked savings contracts, group pension and risk insurance policies and the personnel fund and pension services offered by its subsidiary Innova. In 2013, unit-linked premium income reached an all-time high in the company's history. This can be attributed to the increase in the premium income volumes of Danske Bank's and the company's own networks. In 2013, a significant shift took place in the structure of the company's technical provisions: it was the first time that unit-linked technical provisions exceeded the technical provisions related to with-profit products.

The parent company's direct insurance premiums written in Finland increased 10 per cent and amounted to EUR 1,032 million (947). The EUR 24 million (28) in premiums written on capital redemption policies in the Baltic countries are not included in this figure. Individual pension insurance and group pension insurance accounted for EUR 223 million (254), life insurance for EUR 378 million (314) and capital redemption policies recognised under investment contracts for EUR 430 million (379) of the premiums written.

Premiums written on unit-linked insurance increased 13 per cent to EUR 880 million (780). In spite of the record-high unit-linked premiums written, the company's market share declined to 19.3 per cent (26.2), as premiums written in the sector as a whole experienced very strong growth.

Measured in terms of premiums written, life insurance savings policies showed the strongest growth among the company's product areas, with premiums written amounting to EUR 320 million (256), up 25 per cent on the previous year. Premiums written on capital redemption policies increased 14 per cent. Premiums written on pure life and disability insurance also continued to increase, amounting to EUR 46 million (44). Premiums written on employees' group life insurance totalled EUR 12 million (14).

Premiums written on group pension insurance declined 16 per cent to EUR 121 million (144). Premiums written on individual unit-linked pension insurance policies declined 7 per cent to EUR 102 million (110), as the sale of new individual pension policies was discontinued also in the corporate segment.

In terms of premiums written, Mandatum Life was the market leader in Finland in the corporate insurance segment, with a 40.7 per cent (44.7) market share. Mandatum Life's overall market share in direct business premium income declined to 19.2 per cent (24.5).

Net sales of Mandatum Life's subsidiary Innova, which offers personnel fund and pension services, totalled EUR 4 million (3).

## Activities outside Finland

As in Finland, Mandatum Life's Baltic subsidiary focuses on wealth management services, unit-linked insurance and pure life and disability insurance.

### DIRECT INSURANCE PREMIUMS WRITTEN

| | Group, IFRS | | |
|---|---|---|---|
| EUR million | **2013** | 2012 | Change |
| **Insurance contracts** | | | |
| Unit-linked life insurance | 331 | 266 | 65 |
| Other life insurance | 50 | 50 | 0 |
| Employees' group life insurance | 12 | 14 | -2 |
| Other group life insurance | 8 | 6 | 2 |
| **Life insurance** | **401** | **337** | **64** |
| Unit-linked individual pension insurance | 81 | 87 | -5 |
| Other individual pension insurance | 21 | 23 | -2 |
| Unit-linked group pension insurance | 57 | 68 | -11 |
| Other group pension insurance | 64 | 76 | -12 |
| **Pension insurance** | **223** | **255** | **-31** |
| **Insurance contracts total** | **624** | **591** | **33** |
| **Investment contracts** | | | |
| Unit-linked capital redemption operations | 440 | 389 | 50 |
| Other capital redemption operations | 0 | 0 | 0 |
| **Investment contracts total** | **440** | **389** | **50** |
| **Direct insurance premiums written** | **1,064** | **981** | **83** |

Co-operation with Danske Bank will also continue in the Baltic countries under the long-term distribution agreement made by the parent company.

The Baltic subsidiary's premiums written totalled EUR 32 million (33). Of the EUR 159 million in insurance savings under management, unit-linked insurance accounted for EUR 141 million.

In the Baltic countries, demand for risk insurance grew and capital at risk increased to EUR 535 million (495).

## Investments

Mandatum Life's investment objective is to produce the highest possible return at an acceptable level of risk. Successful investments provide policyholders with good nominal returns and also improve the solvency margin and satisfy shareholders' return expectations.

The investment portfolio is diversified both geographically and by instrument type to increase returns and reduce risks.

In 2013, the investment environment was overall favourable. The total return on the investment portfolio in 2013 was 7.1 per cent (9.4 in 2012). The interest rate level fluctuated heavily during the year, ending with a moderate upward trend compared to the beginning of the year. Demand for corporate bonds remained extremely strong and margins continued to shrink. The total return on the fixed-income portfolio was 3.3 per cent (9.1). Equity markets developed very strongly, and the overall return on equities for the year was 19.1 per cent (12.6). The euro strengthened during the year, driving the result of the unhedged portion of the currency position clearly into the negative.

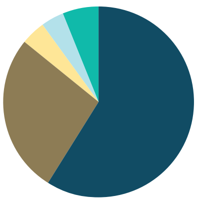
At year-end, the Group's investment portfolio at fair value amounted to EUR 5,452 million (5,519). Of all investments, 38 per cent was invested in Finland (40), 30 per cent in the rest of the euro zone (20) and 32 per cent elsewhere (40).

Interest rate risk investments account for 59 per cent (57) of the portfolio. At the end of December 2013, the duration of the fixed income portfolio was 1.8 years (1.8). Bonds made up 47 per cent (43), fixed-income funds 2 per cent (4) and money-market investments, including cash, 10 per cent (10) of the investment portfolio.

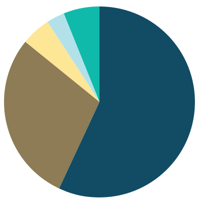
The equity-weighting of the investment portfolio was 27 per cent (29) at

**Figure 4–1: Allocation of investments**

**31.12.2013**
EUR 5,452 million




**31.12.2012**
EUR 5,519 million




**NET INVESTMENT INCOME AT FAIR VALUE**

| | Group, IFRS | | |
|---|---|---|---|
| EUR million | **2013** | 2012 | Change |
| **Guaranteed interest policies** | | | |
| Interest | 119 | 149 | -30 |
| Dividend income | 87 | 67 | 20 |
| Income from and charges arising from investments in land and buildings | 2 | 4 | -2 |
| Gains and losses on sale of investments | 122 | 40 | 82 |
| Value adjustments | -33 | -39 | 6 |
| Exchange rate gains and losses | 4 | 19 | -15 |
| Investment management expenses and depreciation | -12 | -12 | 0 |
| Revaluations | 1 | 10 | -9 |
| Other income and charges | 8 | 41 | -33 |
| **Total** | **298** | **280** | **18** |
| | | | |
| Change in fair value reserve (before tax) | 97 | 235 | -138 |
| Change in valuation differences off the balance sheet | 2 | 3 | -1 |
| **Total net investment income at fair value** | **397** | **518** | **-121** |

year-end. The figure includes direct equity investments, at 12 per cent (13) and investments in equity funds, at 14 per cent (16). In addition, investments in equity funds, carrying equity risk, made up 4 per cent (5) and alternative investment funds 6 per cent (6) of the investment portfolio.

At year-end, the portfolio contained EUR 640 million (752) in private equity fund-type investments, which include, in addition to equity risk, land and building and interest rate risk. The outstanding fund commitments for these totalled EUR 377 million (351). Capital will be committed to these funds over several years as they make new investments. Of these commitments, EUR 27.4 million (4.1) concern investments covering unit-linked insurance, for which corresponding premiums written are also expected. In the allocation graph, the share of capital funds includes only equity-risk capital funds, whereas capital fund-type investments that include a real estate and interest rate risk have been included in the lines corresponding to those risks.

Investments in land and buildings totalled 4 per cent (3) of the portfolio and consisted of 62 per cent (62) direct investments, and 38 per cent (38) indirect investments, i.e. fund units, and loan and equity investments.

Investments covering unit-linked insurance policies, shown as a separate balance sheet item, totalled EUR 4,558 million (3,768).

Mandatum Life Group's net investment gain in the income statement was EUR 569 million (575). Investments covering unit-linked insurance accounted for EUR 270 million (294) of the total gain.

Interest income for the year amounted to EUR 119 million (149). Of the EUR 87 million (67) in dividend income, 38 per cent (50) came from Finnish equities, 57 per cent (50) from profit shares of private equity funds and 5 per cent (-) from exchange-listed index funds. The result includes net gains on disposals of EUR 122 million (40), of which EUR 56 million were realised on exchange-listed index funds, EUR 12 million on bonds and EUR 54 million on Finnish equities, of which the gains on the four largest disposals, YIT, Stora Enso, Neste and Kemira, accounted for 62 per cent. Exchange rate gains of EUR 4 million (19) include currency hedge gains and losses and exchange rate movements of bonds.

In accordance with the investment plan confirmed by the company's Board of Directors, standardised futures and option contracts as well as interest rate and credit risk swaps are actively used for hedging both the existing positions and the interest rate risk on the balance sheet, and for enhancing returns. Derivatives positions are tracked together with the underlying investments, and their risk exposures are calculated based on the prevailing market situation. Derivatives positions are structured so that the overall portfolio risk remains within the limits set by the Board.

Hedge accounting was applied during the financial year for hedging the fair value of foreign currency funds against foreign exchange risk. As a result of the hedging, EUR 18 million in losses (-11) was recognised under profit and loss instead of the fair value reserve.

Total gains from derivatives were EUR 29 million (55). These are included under the items 'Exchange rate gains and losses', 'Other income and expenses' and 'Interest income and expenses'. The gains consist of EUR 12 million (51) in interest rate derivatives and EUR 20 million (16) in foreign exchange derivatives, of which those held for hedging totalled EUR 18 million (12). Equity and credit risk derivatives were EUR 3 million negative (-13).

The fair value reserve included in equity increased by EUR 97 million (235) in the financial year before taxes. Shares and funds accounted for EUR 139 million (163) of the change in fair value reserve, with Finnish equities accounting for EUR 68 million. Fixed-income instruments accounted for EUR -42 million (72) of the change in fair value reserve, and also in this position the biggest change was attributable to the Finnish corporate bond market, at EUR -19 million. EUR 33 million (-37) was recognised as permanent impairment losses in the fair value reserve, roughly half of which came from investments in equity funds.

## Technical provisions and customer bonuses

The effects of the IFRS-based regulations applied in the consolidated financial statements on technical provisions are explained in the accounting policies for the consolidated financial statements. In the measurement of insurance and investment contract liabilities, the principles of the Finnish Accounting Standards for measuring technical provisions have mainly been applied, with the exception of the equalisation reserve.

In accordance with the Finnish Accounting Standards, liabilities related to insurance and investment contracts are recognised as technical provisions divided into the provision for unearned premiums and the provision for outstanding claims.

At year-end, Mandatum Life Group's insurance and investment contract liabilities in the balance sheet before reinsurers' share totalled EUR 8,544 million (7,904), of which unit-linked contracts were EUR 4,617 million (3,833). The Baltic subsidiary's share of the liabilities was EUR 159 million (153), of which unit-linked business accounted for EUR 142 million (134).

Most of the insurance and investment contract liabilities are related to the parent company's insurance activities in Finland. The parent company's technical provisions before reinsurers' share, calculated in accordance with the Finnish Accounting Standards, totalled EUR 8,471 million (7,828) at the end of 2013. The reinsurers' share of the technical provisions was EUR 2.7 million (3.4).

The parent company's technical provisions concerning the unit-linked insurance portfolio were EUR 4,549 million (3,765) at the end of the year. The figure includes the Baltic capital redemption policy. Unit-linked insurance accounted for 54 per cent of the parent company's technical provisions. The technical provisions of the assumed reinsurance portfolio were EUR 5.5 million (1.9) at the end of the period.

The technical provisions concerning employees' group life insurance in the parent company totalled EUR 17.9 million (20.2).

In Finnish operations, the total return on technical provisions in 2013 was 1.25–4.5 per cent, depending on the line of insurance. The total return included a 0–1.5 per cent customer bonus, the amount of which varies depending on the line of insurance and guaranteed interest rate. Mandatum Life seeks to maintain continuity in the level of customer bonuses, irrespective of fluctuations in the capital markets.

The parent company's technical provisions include EUR 2.9 million (3.2) worth of customer bonuses on insurance savings for 2013. The provision for future bonuses stood at EUR 0.2 million (0.03) at the end of the year.

The guaranteed interest rate for most of the guaranteed return policies is 3.5 per cent. Guaranteed interest rate on individual insurance policies sold in Finland before 1999 is 4.5 per cent, which is also the highest discount rate for technical provisions permitted under the regulations. The discount rate for technical provisions for these policies was decreased to 3.5 per cent, and consequently the technical provisions were supplemented with EUR 75 million (EUR 71 million in 2012). In addition, EUR 71 million is reserved for the decreasing of the guaranteed interest rate to 2.25 per cent in 2014 and to 2.75 per cent in 2015. This supplement reduces the future minimum return requirement on technical provisions for investment activities to 2.25 per cent for 2014 and 2.75 per cent for 2015. Considering both amounts, Mandatum Life's technical provisions have been supplemented with a total of EUR 146 million (118) due to the low interest rates.

Equalisation reserve included in technical provisions calculated in accordance with the Finnish Accounting Standards to cover years with a high claims ratio stood at EUR 12 million (11.1) at year end. In the consolidated financial statements, the equalisation reserve was included in capital and reserves and deferred tax liabilities.

According to the liability adequacy test, the technical provisions are adequate. More detailed information on the distribution of and change in technical reserves is included in the note concerning risk management under the Notes to the Financial Statements.

## Principle of fairness

According to Chapter 13 of the Finnish Insurance Companies Act, life insurers must follow the so-called principle of fairness with respect to policies which under the insurance contract give entitlement to bonuses granted on the basis of any surplus generated by insurance policies.

Mandatum Life endeavours to provide over the long term a total return, before expenses and taxes, on insurance savings related to with-profit policies which is at least equal to the yield on long-term fixed income investments regarded as having the lowest risk at the time concerned. According to the current interpretation, German bonds are viewed as the closest option for risk-free, long-term fixed-income investments. For the time being, however, the targeted level of total return corresponds to the yield of 5-year Finnish government bonds in the case of endowment policies and to the yield of 10-year Finnish government bonds in the case of pension insurance policies. The total return consists of guaranteed interest and additional bonuses that are determined annually.

The Board of Directors of Mandatum Life Insurance Company Limited decides on the annual bonuses each year. The amount is influenced by the general interest rate level, the long-term success of the company's investment activities, the level of the guaranteed rate and the company's solvency, among other things. In addition, should the company have to make provision for larger-than-expected claims expenditure on the relevant insurance class due to, for example, a significant change of the mortality rate of policy holders, this will affect the bonuses. The company's website provides a more detailed description of the targeted bonus and an account of bonuses paid.

In risk insurance policies, the principle of fairness is applied in the form of increased sums payable at death or as insurance premium discounts.

Mandatum Life aims for continuity in the level of bonuses.

The targets are valid indefinitely. Mandatum Life's Board of Directors retains the right to change the targets and associated principles within the limits of legislation governing insurance companies. The published distribution principles for bonuses and the application of the principle of fairness are not part of the insurance contract.

The company is committed to keeping its solvency at a level that does not restrict the payment of bonuses to policyholders, or the distribution of profits to shareholders.

There are no regulations corresponding to the principle of fairness in Estonian, Latvian or Lithuanian legislation.

## Claims incurred

Mandatum Life Group's claims incurred on its own account totalled EUR 734 million (673), including operating expenses for claims handling. The change in the provision for claims outstanding, EUR -7.3 million (-41), reduces the amount of claims incurred. The claims were mainly related to Finnish policies. The Baltic subsidiary's share of claims paid was EUR 25 million (24).

A total of EUR 741 million (714) was paid out by Mandatum Life Group on claims during the year, of which reinsurers covered EUR 3.1 million (3.9). Unit-linked policies accounted for EUR 345 million (289) of claims paid.

The parent company, Mandatum Life, made pension payments totalling EUR 319 million (320) to about 61,000 pensioners during the year. Group pension insurance accounted for 57 per cent (58) of this total. A total of close to 38,000 other claims were also paid out. Maturity benefits paid out on policies expiring at term amounted to EUR 20 million (68). Policy surrenders amounted to EUR 322 million (245), life insurance risk payouts totalled EUR 73 million (70), while payouts on reinsurance claims totalled EUR 1 million (1).

## Operating expenses and staff

Mandatum Life Group's operating expenses were EUR 100 million (101). The Baltic subsidiary's share of operating expenses was EUR 6 million (6), and Innova's share was EUR 4 million. The parent company's operating expenses were EUR 90 million (91).

In 2013, Mandatum Life Group's expense ratio was 105.4 per cent (112.7). The Group's total expense ratio (in which the denominator includes all income intended to cover expenses) was 86.2 per cent (93.4). The Group's operating expenses include acquisition costs of EUR 33 million (37).

The parent company's expense ratio was 101.9 per cent (109.9) and including all income matched against expenses, 83.9 per cent (91.6). Mandatum Life does not amortise insurance acquisition costs, and hence a policy's first-year result, i.e. the result for the acquisition year, is usually negative due to acquisition costs.

A key theme at Mandatum Life in 2013 was improving efficiency. At the beginning of the year, the entire personnel was engaged in identifying ways to boost efficiency. Ideas on increasing efficiency and achieving savings poured in, and the targets set for the programme were met. In addition to fixed costs, savings could also be found in processes, centralised operations and more efficient operating methods.

A new operating model for corporate sales was also cascaded at the start of 2013. The goal of the new sales and service model is to improve sales time management and the targeting of our sales operations, and to enhance the customer experience. In future, face-to-face meetings will take place with larger customer accounts and with those with the greatest customer potential, whereas support for smaller customer accounts will be primarily provided electronically and by phone. Following this new operating model, particular emphasis has been placed on developing sales competence, and sales training has been increased. By the end of 2013, close to 90% of our sales personnel specialised in life insurance sales had completed the Investment Advisor Exam (APV).

In accordance with Mandatum Life's strategic policy, the company wishes to grow as a provider of reward and personnel solutions for our customers and to engage its personnel in developing the solutions. A personnel fund that was established in 2012 for the employees of our subsidiary Innova was extended to Mandatum Life's entire personnel in 2013. The employees have the possibility to transfer an amount corresponding to a maximum of half their monthly salary to the fund from their annual performance-based reward. Employees receive an additional 20 per cent bonus for transferring their performance-based reward, as the portion transferred to the fund is not subject to social security contributions. All employees of Mandatum Life's parent company are additionally covered by the company's group pension insurance plan.

Personnel satisfaction has remained at a good level. According to a personnel satisfaction survey carried out in November, overall satisfaction stands at 76 per cent (77). 81 per cent (83) considered Mandatum Life a very good place to work.

The development of processes to support well-being at work and work capacity has resulted in a consistent decline in the company's sick-leave percentage during the past few years. The sick-leave percentage in 2013 was roughly 2.5 (2012: 3.3).

During the year, the parent company Mandatum Life had an average of 424 (430) full-time equivalent (FTE) employees whose services were also sold to Kaleva Mutual Insurance Company. The total number of employees in Mandatum Life Group was 541 (545), of whom 116 (146) were sales staff. The Baltic subsidiary employed 117 (115) persons, of whom 40 (38) were sales staff. Of these employees, 45 were in Estonia, 32 in Latvia and 41 in Lithuania.

## Risk management

Mandatum Life's Board of Directors is responsible for the adequacy of the company's risk management and internal control. The Board annually approves the risk management plan, investment policy and other guidance on the organisation of risk management and internal control in the businesses operations. The contingency plan is part of the risk management plan.

The Managing Director of Mandatum Life has overall responsibility for the implementation of risk management in accordance with the Board's guidance. The business units are responsible for the identification, assessment, control and management of their operational risks.

Risks have been divided into main groups, which are insurance, market, operational, legal and compliance risks as well as business and reputational risks. Each main group has been appointed a responsible person in the Risk Management Committee, which meets regularly. The Committee is chaired by the Managing Director, and it also handles the risks related to the Baltic subsidiary.

The Financial Statements include a note on risks and risk management, explaining Mandatum Life Group's general risk management principles as well as its principal risks.

## Corporate structure and ownership

Mandatum Life Insurance Company Limited is a fully owned subsidiary of Sampo plc.

Mandatum Life has an Estonian subsidiary, Mandatum Life Insurance Baltic SE (100% ownership), with branches in Latvia and Lithuania, as well as Innova Personnel Fund and Pension Services Ltd.

Mandatum Life Group also includes 22 (22) Finnish subsidiaries (housing and property companies) and the associated companies Niittymaa Oy (49 per cent holding) and SaKa Hallikiinteistöt Oy (48 per cent holding).

## Events after the end of reporting period

There were no significant events after the end of reporting period.

## Future outlook

The opportunities and challenges that the company will face in the near future will largely be similar to those faced a year ago. The uncertainty related to the global and particularly the euro-zone economy and the low level of low-risk interest rates will continue to be the most significant challenges in terms of investment operations and the company's result.

In 2013, Mandatum Life's return on investments was good, owing especially to the excellent return on equity investments. Corporate bonds also generated good returns. In terms of the company's future outlook, the most significant challenge will lie in the low level of low-risk market interest rates, coupled with a clearly higher guaranteed rate for insurance policies. The reinvestment risk related to fixed-income investments maturing during the next few years is considerable, owing to the low interest rate levels and the relatively low risk margins of corporate bonds. However, the solvency capital, which developed favourably during the year, and the discount rate reserve put the company in a good position to tolerate low interest rate levels and short-term market fluctuations.

During the year, the company significantly expanded the range of investments offered to its wealth management customers. The sales organisation and service offering targeted to corporate customers were revamped to better meet customers' needs related to health and life risks, preparedness for retirement and rewards. Following these changes, coupled with the major reorganisation carried out by the key distribution partner Danske Bank during 2013, sales volumes can realistically be expected to continue to increase in 2014 too. This development is boosted by the clear improvement in customer satisfaction, based on measured results.

In addition to investment operations, the company's result is also affected by the risk result arising from insurance risks and by the expense result. The expense result has experienced particularly favourable development over the past few years. This development can be attributed to the cost-efficiency programme carried out in 2013 and to the increase in expense charges resulting from the simultaneous strong growth in unit-linked savings. As the effects of the cost-efficiency programme will be fully visible in 2014 and as the expense charges are also expected to continue to increase, the expense result is expected to exceed the 2013 level. However, as the weight of unit-linked business increases, the company's expense business outlook is also subject to uncertainty arising from the fluctuation of the investment market. The risk result is expected to remain on a par with the previous years' level.

In terms of regulation, the year 2013 was significant. The revised Insurance Companies' Act entered into force in Finland on 1 January 2014. The Solvency II Directive, prepared at the European Union level to harmonise solvency regulation and control, was finalised. The Solvency II regulatory framework will enter into force on 1 January 2016. Even before its entry into force, Solvency II has had a major impact on the risk appetite of European companies. Mandatum Life's strategy has been to maintain a solvency level which ensures that in investment operations, risks can be taken that make sense considering the long duration of with-profit reserves. In future, the company will have to be even more selective with regard to risks in which the Solvency II capital requirements exceed the company's view. The transitional provisions of Solvency II give companies time to adjust their balance structure to better meet the requirements of the new regulatory framework.

## Corporate Governance

Mandatum Life's corporate governance is primarily determined on the basis of the Finnish Insurance Companies' Act and the Limited Liability Companies Act. More detailed provisions regarding the company's governance can be found in its Articles of Association.

The supreme authority over the company's business is exercised by the General Meeting of Shareholders. The Annual General Meeting was held on 12 March 2013 and the Extraordinary General Meeting was held on 23 April 2013.

In accordance with its Articles of Association, Mandatum Life's Board of Directors comprises no fewer than four and no more than seven members. In 2013, the Board had five members. Of the Board's members, the terms of Patrick Lapveteläinen and Jarmo Salonen expired, and they were re-elected to serve until the 2016 Annual General Meeting.

The Board's composition is as follows: Group CEO Kari Stadigh (Chairman), Group CFO Peter Johansson (Vice Chairman) and members Patrick Lapveteläinen, Jorma Leinonen and Jarmo Salonen. The Board convened 15 times during the financial year.

The staff's elected representative at the Board of Directors' meetings was Matti Lepistö, Liaison Manager, and his deputy was Sirpa Mustonen, Project Manager. The staff representative is not a member of the Board of Directors.

Petri Niemisvirta was the company's Managing Director and Jukka Kurki was the Deputy Managing Director.

The Auditors elected by the Annual General Meeting were Ernst & Young Oy, Authorised Public Accountants, with Heikki Ilkka, APA, and Kristina Sandin, APA, as the auditors with principal responsibility. The Deputy Auditors were Eva Bruun, APA, and Terhi Mäkinen, APA.

## The Board of Directors' proposal for the distribution of profit

Mandatum Life's profit in accordance with the Finnish Accounting Standards was EUR 173,503,200.64 and distributable funds were EUR 563,310,603.89. The Board of Directors proposes to the Annual General Meeting that EUR 100,000,000 of the profit for the financial year be distributed as dividend and the rest be transferred to the profit and loss account.

# Consolidated Comprehensive Income Statement

| EUR million | Note | **1–12/2013** | 1–12/2012 |
|---|---|---|---|
| Insurance premiums | 1 | 1,063.1 | 977.4 |
| Net income from investments | 2 | 569.4 | 574.5 |
| Other operating income | | 4.3 | 3.5 |
| | | | |
| Claims incurred | 3 | -731.3 | -669.0 |
| Change in liabilities for insurance and investment contracts | 4 | -647.7 | -642.1 |
| Staff costs | 5 | -46.0 | -42.4 |
| Other operating expenses | 6 | -53.9 | -58.4 |
| | | | |
| Finance costs | 7 | -6.6 | -7.2 |
| Share of associates' profit/loss | | 1.4 | 0.0 |
| | | | |
| **Profit before taxes** | | **152.7** | **136.1** |
| | | | |
| Taxes | 19 | -33.5 | -27.8 |
| | | | |
| **Profit for the period** | | **119.2** | **108.4** |
| | | | |
| **Other comprehensive income for the period** | 20-21 | | |
| **Items reclassifiable to profit or loss** | | | |
| Exchange differences | | 0.0 | 0.0 |
| Available-for-sale financial assets | | 96.9 | 236.2 |
| Cash flow hedges | | -0.3 | -1.2 |
| Income tax relating to components of other comprehensive income | | 4.0 | -57.6 |
| **Other comprehensive income for the period, items reclassifiable to profit or loss net of tax, total** | | **100.6** | **177.4** |
| | | | |
| **Total comprehensive income for the year** | | **219.8** | **285.8** |

# Consolidated Balance Sheet

| EUR million | Note | 12/2013 | 12/2012 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 8 | 5.1 | 5.4 |
| Investment property | 9 | 105.2 | 93.4 |
| Intangible assets | 10 | 8.5 | 11.0 |
| Investments in associates | 11 | 1.4 | 0.0 |
| Financial assets | 12 - 16 | 5,122.3 | 5,269.2 |
| Investments related to unit-linked insurance and investment contracts | 17 | 4,622.9 | 3,833.8 |
| Reinsurers' share of insurance liabilities | 24 | 2.8 | 3.4 |
| Other assets | 22 | 81.3 | 109.6 |
| Cash and cash equivalents | 23 | 222.1 | 153.9 |
| **Total assets** | | **10,171.6** | **9,479.8** |
| | | | |
| **Liabilities** | | | |
| Liabilities for insurance and investment contracts | 24 | 3,927.5 | 4,070.8 |
| Liabilities for unit-linked insurance and investment contracts | 25 | 4,616.6 | 3,833.1 |
| Financial liabilities | 13, 26 | 110.8 | 105.1 |
| Tax liabilities | 18 | 128.0 | 153.1 |
| Other liabilities | 28 | 128.8 | 177.4 |
| **Total liabilities** | | **8,911.6** | **8,339.6** |
| | | | |
| **Equity** | 30 | | |
| Share capital | | 40.4 | 40.4 |
| Reserves | | 621.1 | 520.4 |
| Retained earnings | | 598.6 | 579.5 |
| **Other components of equity** | | **1,260.1** | **1,140.3** |
| Equity attributable to owners of the parent | | 0.0 | 0.0 |
| **Total equity** | | **1,260.1** | **1,140.3** |
| | | | |
| **Total equity and liabilities** | | **10,171.6** | **9,479.8** |

# Statement of Changes in Equity

| EUR million | Share capital | Share premium account | Legal reserve | Retained earnings | Translation of foreign operations | Available-for-sale financial assets*) | Cash flow hedges**) | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Equity at 1 Jan. 2012** | **40.4** | **98.9** | **30.1** | **471.3** | **-0.2** | **212.9** | **1.2** | **854.5** |
| **Changes in equity** | | | | | | | | |
| Transfers between equity | | | 0.0 | | | | | **0.0** |
| Dividends | | | | | | | | **0.0** |
| Total comprehensive income for the year | | | | 108.4 | 0.0 | 178.3 | -0.9 | **285.7** |
| **Equity at 31 Dec. 2012** | **40.4** | **98.9** | **30.1** | **579.7** | **-0.2** | **391.2** | **0.2** | **1,140.3** |
| Changes in equity | | | | | | | | |
| Transfers between equity | | | 0.0 | -0.1 | | 0.1 | | **0.0** |
| Dividends | | | | -100.0 | | | | **-100.0** |
| Total comprehensive income for the year | | | | 119.2 | 0.0 | 100.8 | -0.2 | **219.8** |
| **Equity at 31 Dec. 2013** | **40.4** | **98.9** | **30.1** | **598.8** | **-0.2** | **492.1** | **0.0** | **1,260.1** |

*) The amount recognised in equity from available-for-sale financial assets for the period totalled EURm 166.8 (180.2). The amount transferred to p/l amounted to EURm 96.9 (-1.9).

**) The amount recognised in equity from cash flow hedges for the period terminate.

The amount included in the translation, available-for-sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax.

# Statement of Cash Flows

| EUR million | 2013 | 2012 |
|---|---|---|
| **Operating activities** | | |
| Profit before taxes | 152.7 | 136.1 |
| **Adjustments:** | | |
| Depreciation and amortisation | 6.4 | 6.8 |
| Unrealised gains and losses arising from valuation | -180.6 | -296.6 |
| Realised gains and losses on investments | -149.5 | -63.7 |
| Change in liabilities for insurance and investment contracts | 640.8 | 600.9 |
| Other adjustments | 23.6 | 32.5 |
| **Adjustments total** | **340.7** | **279.9** |
| | | |
| **Change (+/-) in assets of operating activities** | | |
| Investments *) | -258.3 | -351.4 |
| Other assets | 65.2 | 45.8 |
| **Total** | **-193.1** | **-305.6** |
| | | |
| **Change (+/-) in liabilities of operating activities** | | |
| Financial liabilities | -0.6 | -1.8 |
| Other liabilities | -85.9 | 30.2 |
| Paid taxes | -45.1 | -75.4 |
| **Total** | **-131.6** | **-47.0** |
| | | |
| **Net cash from operating activities** | **168.8** | **63.4** |
| | | |
| **Investing activities** | | |
| Net investment in equipment and intangible assets | -0.6 | -2.7 |
| **Net cash from investing activities** | **-0.6** | **-2.7** |
| | | |
| **Financing activities** | | |
| Dividends paid | -100.0 | 0.0 |
| **Net cash from financing activities** | **-100.0** | **0.0** |
| | | |
| **Total cash flows** | **68.2** | **60.7** |
| | | |
| Cash and cash equivalents at 1 January | 153.9 | 93.2 |
| Cash and cash equivalents at 31 December | 222.1 | 153.9 |
| **Net increase in cash and cash equivalents** | **68.2** | **60.7** |
| | | |
| Additional information to the statement of cash flows: | | |
| Interest income received | 196.7 | 224.4 |
| Interest expense paid | -27.3 | -31.9 |
| Dividend income received | 42.7 | 41.4 |

*) Investments include investment property, financial assets and investments related to unit-linked insurance and investment contracts.

The items of the statement of cash flows cannot be directly concluded from the balance sheets due to e.g. exchange rate differences.

Cash and cash equivalents include cash at bank and in hand EURm 178.6 (98.9) and short-term deposits (max. 3 months) EURm 43.5 (55.0).

# Notes to the accounts

## Summary of significant accounting policies

Mandatum Life Group has prepared the consolidated financial statements for 2013 in compliance with the International Financial Reporting Standards (IFRSs). In preparing the financial statements, Mandatum Life has applied all the standards and interpretations relating to its business, adopted by the commission of the EU and effective at 31 December, 2013.

During the financial year, Mandatum Life adopted the following amended standard relating to its business.

Amendment to IAS 1 (effective for annual periods beginning on 7 July 2012 or after) requires the grouping of items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. The amendment will have an impact on the Group's disclosures.

The amendment to IAS 19 Employee Benefits (effective for annual periods beginning on 1 Jan 2013 or after) mandates all actuarial gains and losses be recognised in other comprehensive income, thus the so-called corridor approach is eliminated and the benefit cost will be determined based on the net funding. The amendment will have no impact on the Group's disclosures.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on 1 Jan 2013 or after) combines in one standard the determination of fair value and defines the concept of fair value more precisely. The new standard will have an impact mainly on the Group's disclosures.

The amendment to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on 1 Jan 2013 or after) clarifies the disclosure requirements for e.g. offset financial instruments. The amendment will have no material impact on the Group's financial statements reporting.

Improvements to IFRSs 2009 - 2011 – various minor changes made to different standards at the same time. The changes were not material to Mandatum Life's financial statements reporting.

In preparing the notes to the consolidated financial statements, attention has also been paid to the Finnish accounting and company legislation and applicable regulatory requirements. Some of the risk management disclosures are presented in the Group's financial statements' Risk Management section.

The financial statements have been prepared under the historical cost convention, with the exception of financial assets and liabilities at fair value through p/l, financial assets available-for-sale, hedged items in fair value hedges and share-based payments settled in equity instruments measured at fair value.

The consolidated financial statements are presented in millions of euros to one decimal place, unless otherwise stated.

The Board of Directors of Mandatum Life accepted the financial statements for issue on 11 February 2014.

## Consolidation

### Subsidiaries

The consolidated financial statements combine the financial statements of Mandatum Life and all its subsidiaries. Entities qualify as subsidiaries if the Group has the controlling power. The Group exercises control if its shareholding is more than 50 per cent of the voting rights or it otherwise has the power to exercise control over the financial and operating policies of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date that control ceases.

The acquisition method of accounting is used for the purchase of subsidiaries. The cost of an acquisition is allocated to the identifiable assets, liabilities and contingent liabilities, which are measured at the fair value of the date of the acquisition. Possible non-controlling interest of the acquired entity is measured either at fair value or at proportionate interest in the acquiree's net assets. The acquisition-specific choice affects both the amount of recognised goodwill and non-controlling interest. The excess of the aggregate of consideration transferred, non-controlling interest and possibly previously held equity interest in the acquiree, over the Group's share of the fair value of the identifiable net assets acquired, is recognised as goodwill.

The accounting policies used throughout the Group for the purposes of consolidation are consistent with respect to similar business activities and other events taking place in similar conditions. All intra-group transactions and balances are eliminated upon consolidation.

### Associates

Associates are entities in which the Group has significant influence, but no control over the financial management and operating policy decisions. Unless otherwise demonstrated, this is generally presumed when the Group holds in excess of 20 per cent, but no more than 50 per cent, of the voting rights of an entity. Investments in associates are treated by the equity method of accounting, in which the investment is initially recorded at cost and increased (or decreased) each year by the Group's share of the post-acquisition net income (or loss), or other movements reflected directly in the equity of the associate. If the Group's share of the associate's loss exceeds the carrying amount of the investment, the investment is carried at zero value, and the loss in excess is consolidated only if the Group is committed to fulfilling the obligations of the associate. Goodwill arising on the acquisition is included in the cost of the investment. Unrealised gains (losses) on transactions are eliminated to the extent of the Group's interest in the entity.

The share of associates' profit or loss, equivalent to the Group's holding, is presented as a separate line in the income statement.

If there is any indication that the value of the investment may be impaired, the carrying amount is tested by comparing it with its recoverable amount. The recoverable amount is the higher of its value in use or its fair value less costs to sell. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to its recoverable amount by recognising an impairment loss in the profit/loss. If the recoverable amount later increases and is greater than the carrying amount, the impairment loss is reversed through profit and loss.

## Foreign currency translation

The consolidated financial statements are presented in euro, which is the functional and reporting currency of the Group and the parent company. Items included in the financial statements of each of the Group entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates. Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of transactions or the average rate for a month. The balance sheet items denominated in foreign currencies are translated into the functional currency at the rate prevailing at the balance sheet date.

Exchange differences arising from translation of transactions and monetary balance sheet items denominated in foreign currencies into functional currency are recognised as translation gains and losses in profit or loss. Exchange differences arising from equities classified as available-for-sale financial assets are included directly in the fair value reserve in equity.

The income statements of Group entities whose functional currency is other than euro are translated into euro at the average rate for the period, and the balance sheets at the rates prevailing at the balance sheet date. The resulting exchange differences are included in equity and their change in other comprehensive income. When a subsidiary is divested entirely or partially, the cumulative exchange differences are included in the income statement under sales gains or losses.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as if they were assets and liabilities of the foreign entity. Exchange differences resulting from the translation of these items at the exchange rate of the balance sheet date are included in equity, and their change in other comprehensive income.

Exchange differences that existed at the Group's IFRS transition date, 1 January 2004, are deemed to be zero, in accordance with the exemption permitted by IFRS 1.

## Segment reporting

Mandatum Life Group's segmentation is based on the division by the product group of domestic business and the other geographical organisational structure. The reported segments are "Unit linked contracts" (Finland), other businesses (Finland) and the Baltic countries.

The investment risks vary by a product group. The segment results are reported to the management of the company as a part of management reporting.

Return on investments covering unit linked contracts and commissions received from fund management companies have been allocated to the segment "Unit linked contracts" (Finland). In addition, a balance sheet item "available for sale financial assets" corresponding to the required minimum solvency margin has been allocated to this segment. In the Profit and Loss Account, a technical revenue equal to a six months Euribor has been calculated on the item in question, which has respectively been deducted from the net investment profits received from the segment other businesses (Finland). Allocation of operational expenses and tangible and intangible assets has been carried out through internal cost accounting.

The primary segmentation comprises a substantial part of the geographical division, since operations in the Baltic countries compose one separate business segment. In connection with the expansion of the foreign operations shall also the division by country be expanded. Inter-segment transactions, assets and liabilities are eliminated in the consolidated financial statements on a line-by-line basis.

In the inter-segment and inter-company pricing, for both domestic and cross border transactions, market-based prices are applied. The pricing is based on the code of conduct on Transfer Pricing Documentation in the EU and OECD guidelines.

## Interest and dividends

Interest income and expenses are recognised in the income statement using the effective interest rate method. This method recognises income and expenses on the instrument evenly in proportion to the amount outstanding over the period to maturity.

Dividends on equity securities are recognised as revenue when the right to receive payment is established.

## Fees and commissions

The fees and transaction costs of financial instruments measured at fair value through profit or loss are recognised in profit or loss when the instrument is initially recognised.

The acquisition costs are treated as fee and commission expense under 'Other operating expenses'.

Other fees and commissions paid for investment activities are included in 'Net income from investments'.

## Insurance premiums

Liabilities arising from insurance and investment contracts count as long-term liabilities. Therefore the insurance premium and related claims are usually not recognised in the same accounting period. Depending on the type of insurance, premiums are primarily recognised in premiums written when the premium has been paid. In group pension insurance, a part of the premiums is recognised already when charged.

The change in the provisions for unearned premiums is presented as an expense under 'Change in insurance and investment contract liabilities'.

## Financial assets and liabilities

Based on the measurement practice, financial assets and liabilities are classified in the following categories upon the initial recognition: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, financial liabilities at fair value through profit or loss, and other liabilities.

According to the Group's risk management policy, investments are managed at fair value in order to have the most realistic and real-time picture of investments, and they are reported to the Group key management at fair value. Investments comprise debt and equity securities. They are mainly classified as financial assets available-for-sale.

IFRS 4 Insurance Contracts provides that insurance contracts with a discretionary participation feature are measured in accordance with national valuation principles (except for the equalisation reserve) rather than at fair value. These contracts and investments made to cover shareholders' equity are managed in their entirety and are classified mainly as available-for-sale financial assets.

Financial assets designated as at fair value through profit or loss are investments related to unit-linked insurance, presented separately in the balance sheet. The corresponding liabilities are also presented separately. In addition, investments classified as the financial assets of foreign subsidiaries, and financial instruments in which embedded derivatives have not been separated from the host contract have been designated as at fair value through profit or loss.

## Recognition and derecognition

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised and derecognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced.

Financial assets and liabilities are offset and the net amount is presented in the balance sheet only when the Group has a legally enforceable right to set off the recognised amounts and it intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expire.

### Financial assets and financial liabilities at fair value through profit or loss

In Mandatum Life Group, financial assets and liabilities at fair value through profit of loss comprise derivatives held for trading, and financial assets designated as at fair value through profit or loss.

### Financial derivative instruments held for trading

Derivative instruments that are not designated as hedges and do not meet the requirements for hedge accounting are classified as derivatives for trading purposes.

Financial derivatives held for trading are initially recognised at fair value. Derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative instruments are recognised at fair value, and gains and losses arising from changes in fair value together with realised gains and losses are recognised in the income statement.

### Financial assets designated as at fair value through profit or loss

Financial assets designated as at fair value through profit or loss are assets which, at inception, are irrevocably designated as such. They are initially recognised at their fair value. Gains and losses arising from changes in fair value, or realised on disposal, together with the related interest income and dividends, are recognised in the income statement.

### Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the short term. The category also comprises cash.

Loans and receivables are initially recognised at their fair value, added by transaction costs directly attributable to the acquisition of the asset. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial investments that are designated as available for sale and or are not categorised into any other category. Available-for-sale financial assets comprise debt and equity securities.

Available-for-sale financial assets are initially recognised fair value, including direct and incremental transaction costs. They are subsequently remeasured at fair value, and the changes in fair value are recorded in other comprehensive income and presented in the fair value reserve, taking the tax effect into account. Interest income and dividends are recognised in profit or loss. When the available-for-sale assets are sold, the cumulative change in the fair value is transferred from equity and recognised together with realised gains or losses in profit or loss. The cumulative change in the fair value is also transferred to profit or loss when the assets are impaired and the impairment loss is recognised. Exchange differences due to available-for-sale monetary balance sheet items are always recognised directly in profit or loss.

### Other financial liabilities

Other financial liabilities comprise debt securities in issue and other financial liabilities.

Other financial liabilities are recognised when the consideration is received and measured to amortised cost, using the effective interest rate method.

If debt securities issued are redeemed before maturity, they are derecognised and the difference between the carrying amount and the consideration paid at redemption is recognised in profit or loss.

### Fair value

The fair value of financial instruments is determined primarily by using quoted prices in active markets. Instruments are measured either at the bid price or at the last trade price, if the instrument is a share listed at NASDAQ OMX. The financial derivatives are also measured at the last trade price. If the financial instrument has a counter-item that will offset its market risk, the mid-price may be used to that extent. If a published price quotation does not exist for a financial instrument in its entirety, but active markets exist for its component parts, the fair value is determined on the basis of the relevant market prices of the component parts.

If a market for a financial instrument is not active, or the instrument is not quoted, the fair value is established by using generally accepted valuation techniques including recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

If the fair value of a financial asset cannot be determined, historical cost is deemed to be a sufficient approximation of fair value. The amount of such assets in the Group balance sheet is immaterial.

## Impairment of financial assets

Mandatum Life assesses at the end of each reporting period whether there is any objective evidence that a financial asset, other than those at fair value through p/l, may be impaired. A financial asset is impaired and impairment losses are incurred, if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset, and if that event has an impact, that can be reliably estimated, on the estimated future cash flows of the financial asset.

### Financial assets carried at amortised cost

There is objective evidence of impairment, if an issuer or debtor e.g. encounters significant financial difficulties that will lead to insolvency and to estimation that the customer will probably not be able to meet the obligations to the Group. Objective evidence is first assessed for financial assets that are individually significant, and individually and collectively for financial assets not individually significant.

When there is objective evidence of impairment of a financial asset carried at amortised cost, the amount of the loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate. The difference is recognised as an impairment loss in profit or loss. The impairment is assessed individually.

If, in a subsequent period, the amount of the impairment loss decreases, and the decease can objectively be related to an event occurring after the impairment was recognised (e.g. the default status is removed), the previously recognised impairment loss shall be reversed through profit or loss.

### Available-for-sale financial assets

Whether there is objective evidence of an impairment of available-for-sale financial assets, is evaluated in a separate assessment, which is done if the credit rating of an issuer has declined or the entity is placed on watchlist, or there is a significant or prolonged decline in the fair value of an equity instrument below its original acquisition cost.

The decision on whether the impairment is significant or prolonged requires an assessment of the management. The assessment is done case by case and with consideration paid not only to qualitative criteria but also historical changes in the value of an equity as well as time period during which the fair value of an equity security has been lower than the acquisition cost. In Mandatum Life Group, the impairment is normally assessed to be significant, if the fair value of a listed equity or participation decreases below the average acquisition cost by 20 per cent and prolonged, when the fair value has been lower than the acquisition cost for over 12 months.

As there are no quoted prices available in active markets for unquoted equities and participations, the aim is to determine their fair value with the help of generally accepted valuation techniques available in the markets. The most significant share of unquoted equities and participations comprise the private equity and venture capital investments. They are measured in accordance with the generally accepted common practice, International Private Equity and Venture Capital Guidelines (IPEV).

The significance and prolongation of the impairment in the last-mentioned cases is assessed case by case, taking into consideration special factors and circumstances related to the investment. Mandatum Life invests in private equity and venture capital in order to keep them to the end of their life cycle, so the typical lifetime is 10 – 12 years. In general, a justifiable assessment of a potential impairment may only be done towards the end of the life cycle. However, if additionally there is a well-founded reason to believe that an amount equivalent to the acquisition cost will not be recovered when selling the investment, an impairment loss is recognised.

In the case of debt securities, the amount of the impairment loss is assessed as the difference between the acquisition cost, adjusted with capital amortisations and accruals, and the fair value at the review time, reduced by previously in profit or loss recognised impairment losses.

When assessed that there is objective evidence of impairment in debt or equity securities classified as financial assets available-for-sale, the cumulative loss recognised in other comprehensive income is transferred from equity and recognised in profit or loss as an impairment loss.

If, in a subsequent period, the fair value of a debt security increases and the increase can objectively be related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed by recognising the amount in profit or loss.

If the fair value of an equity security increases after the impairment loss was recognised in profit or loss, the increase shall be recognised in other comprehensive income. If the value keeps decreasing below the acquisition cost, an impairment loss is recognised through profit or loss.

## Derivative financial instruments and hedge accounting

Derivative financial instruments are classified as those held for trading and those held for hedging, including interest rate derivatives, foreign exchange derivatives, equity derivatives and commodity derivatives. Derivative instruments are measured initially at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### Derivatives held for trading

Derivative instruments that are not designated as hedges and embedded derivatives separated from a host contract are treated as held for trading. They are measured at fair value and the change in fair value, together with realised gains and losses and interest income and expenses, is recognised in profit or loss.

If derivatives are used for hedging, but they do not qualify for hedge accounting as required by IAS 39, they are treated as held for trading.

### Hedge accounting

The Mandatum Life Group may hedge its operations against interest rate risks, currency risks and price risks through fair value hedging and cash flow hedging. Cash flow hedging is used as a protection against the variability of the future cash flows, while fair value hedging is used to protect against changes in the fair value of recognised assets or liabilities.

Hedge accounting applies to hedges that are effective in relation to the hedged risk and meet the hedge accounting requirements of IAS 39. The hedging relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for undertaking the hedge, are documented at the inception of the hedge. In addition, the effectiveness of a hedge is assessed both at inception and on an ongoing basis, to ensure that it is highly effective throughout the period for which it was designated. Hedges are regarded as highly effective in offsetting changes in fair value or the cash flows attributable to a hedged risk within a range of 80-125 per cent.

During the financial year, both fair value and cash flow hedging have been applied.

### Cash flow hedging

Cash flow hedging is used to hedge the interest cash flows of individual floating rate debt securities or other floating rate assets or liabilities. The hedging instruments used include interest rate swaps, interest rate and cross currency swaps. Derivative instruments which are designated as hedges and are effective as such are measured at fair value. The effective part of the change in fair value is recognised in other comprehensive income. The remaining ineffective part is recognised in profit or loss.

The cumulative change in fair value is transferred from equity and recognised in profit or loss in the same period that the hedged cash flows affect profit or loss.

When a hedging instrument expires, is sold, terminated, or the hedge no longer meets the criteria for hedge accounting, the cumulative change in fair value remains in equity until the hedged cash flows affect profit or loss.

### Fair value hedging

In accordance with the Group's risk management principles, fair value hedging is used to hedge changes in fair values resulting from changes in price, interest rate or exchange rate levels. The hedging instruments used include foreign exchange forwards, interest rate swaps, interest rate and cross currency swaps and options, approved by the managements of the Group companies.

Changes in the fair value of derivative instruments that are documented as fair value hedges and are effective in relation to the hedged risk are recognised in profit or loss. In addition, the hedged assets and liabilities are measured at fair value during the period for which the hedge was designated, with changes in fair value recognised in profit or loss.

## Securities lending

Securities lent to counterparties are retained in the balance sheet. Conversely, securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, in which case the purchase is recorded as a trading asset and the obligation to return the securities as a trading liability at fair value through profit or loss.

## Leases

### Group as lessee

#### Operating leases

Assets in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases and they are included in the lessor's balance sheet. Payments made on operating leases are recognised on a straight-line basis over the lease term as rental expenses in profit or loss.

### Group as lessor

#### Operating leases

Leases in which assets are leased out and the Group retains substantially all the risks and rewards of ownership are classified as operating leases. They are included in 'Investment property' in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment, and the impairment losses are recognised on the same basis as for these items. Rental income on assets held as operating leases is recognised on a straight-line basis over the lease term in profit or loss.

## Intagible assets

### Other intagible assets

IT software and other intangible assets, whether procured externally or internally generated, are recognised in the balance sheet as intangible assets with finite useful lives, if it is probable that the expected future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably. The cost of internally generated intangible assets is determined as the sum of all costs directly attributable to the assets. Research costs are recognised as expenses in profit or loss as they are incurred. Costs arising from development of new IT software or from significant improvement of existing software are recognised only to the extent they meet the abovementioned requirements for being recognised as assets in the balance sheet.

Customer relationships based on and identifiable in acquisition of business activities of Innova, are also recognised as other intangible assets. The average validity period of the assets 10 years, is deemed as the asset's useful life, during which time it is amortised on a straight-line basis. When necessary, customer relationships are tested for impairment.

Intangible assets with finite useful lives are measured at historical cost less accumulated amortisation and impairment losses. Intangible assets are amortised on a straight-line basis over the estimated useful life of the asset. The estimated useful lives by asset class are as follows:

| | |
|---|---|
| IT software | 4–10 years |
| Other intangible assets | 3–10 years |

## Property, plant and equipment

Property, plant and equipment comprise properties occupied for Mandatum Life's own activities, office equipment, fixtures and fittings, and furniture. Classification of properties as those occupied for own activities and those for investment activities is based on the square metres in use. If the proportion of a property in Mandatum Life's use is no more than 10 per cent, the property is classified as an investment property.

Property, plant and equipment are measured at historical cost less accumulated depreciation and impairment losses. Improvement costs are added to the carrying amount of a property when it is probable that the future economic benefits that are attributable to the asset will flow to the entity. Costs for repairs and maintenance are recognised as expenses in the period in which they were incurred.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful life. In most cases, the residual value is estimated at zero. Land is not depreciated. Estimates of useful life are reviewed at financial year-ends and the useful life is adjusted if the estimates change significantly. The estimated useful lives by asset class are as follows:

| | |
|---|---|
| Residential, business premises and offices | 20–60 years |
| Industrial buildings and warehouses | 30–60 years |
| Components of buildings | 10–15 years |
| IT equipment and motor vehicles | 3–5 years |
| Other equipment | 3–10 years |

Depreciation of property, plant or equipment will be discontinued, if the asset in question is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

## Impairment of intangible assets and property, plant and equipment

At each reporting date the Group assesses whether there is any indication that an intangible asset or an item of property, plant or equipment may be impaired. If any such indication exists, the Group will estimate the recoverable amount of the asset.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is calculated by estimating future net cash flows expected to be derived from an asset or a cash-generating unit, and by discounting them to their present value using a pre-tax discount rate. If the carrying amount of an asset is higher than its recoverable amount, an impairment loss is recognised in profit or loss. In conjunction with this, the impaired asset's useful life will be re-determined.

If there is any indication that an impairment loss recognised for an asset in prior periods may no longer exist or may have decreased, the recoverable amount of the asset will be estimated. If the recoverable amount of the asset exceeds the carrying amount, the impairment loss is reversed, but no more than to the carrying amount which it would have been without recognition of the impairment loss.

## Investment property

Investment property is held to earn rentals and for capital appreciation. The Group applies the cost model to investment property in the same way as it applies to property, plant and equipment. The depreciation periods and methods and the impairment principles are also the same as those applied to corresponding property occupied for own activities.

The fair value of investment property is estimated using a method based on estimates of future cash flows and a comparison method based on information from actual sales in the market. The fair value of investment property is presented in the Notes.

The valuation takes into account the characteristics of the property with respect to location, condition, lease situation and comparable market information regarding rents, yield requirements and unit prices. During the financial year, the valuations were conducted by the Group's internal resources.

## Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the Group can reliably estimate the amount of the obligation. If it is expected that some or all of the expenditure required to settle the provision will be reimbursed by another party, the reimbursement will be treated as a separate asset only when it is virtually certain that the Group will receive it.

## Insurance and investment contracts

Insurance contracts are treated, in accordance with IFRS 4, either as insurance or investment contracts. Under the standard, insurance contracts are classified as insurance contracts if significant insurance risk is transferred between the policyholder and the insurer. If the risk transferred on the basis of the contract is essentially financial risk rather than significant insurance risk, the contract is classified as an investment contract. Classification of a contract as an insurance contract or investment contract determines the measurement principle applied to it.

Mandatum Life treats the liabilities arising from contracts in the first phase of the standard according to national accounting standards, except for the equalisation reserve and its changes which are reported in equity and profit or loss, in accordance with the IFRS.

The risks involved in insurance and investment contracts are widely elaborated in the Group's financial statements' Risk Management section.

### Reinsurance contracts

A reinsurance contract is a contract which meets the IFRS 4 requirements for insurance contracts and on the basis of which the Mandatum Life Group (the cedant) may receive compensation from another insurer (the reinsurer), if it becomes liable for paying compensation based on other insurance contracts it has issued. Such compensation received on the basis of reinsurance contracts is included in the balance sheet under 'Reinsurers' share of insurance liabilities' and 'Other assets'. The former item includes the reinsurers' share of the provisions for unearned premiums and claims outstanding in the Group's reinsured insurance contracts, while the latter includes short-term receivables from reinsurers.

When the Group itself has to pay compensation to another insurer on the basis of a reinsurance contract, the liability is recognised in the item 'Other liabilities'.

Receivables and liabilities related to reinsurance are measured uniformly with the cedant's receivables and liabilities. Reinsurance receivables are tested annually for impairment. Impairment losses are recognised through profit or loss, if there is objective evidence indicating that the Group (as the cedant) will not receive all amounts of money it is entitled to on a contractual basis.

### Classification of insurance contracts

Policies issued are classified as either insurance contracts or investment contracts. Insurance contracts are contracts that carry significant insurance risk or contracts in which the policyholder has the right to change the contract by increasing the risk. As capital redemption contracts do not carry insurance risk, these contracts are classified as investment contracts.

The discretionary participation feature (DPF) of a contract is a contractual right held by a policyholder to receive additional benefits, as a supplement to the guaranteed minimum benefits. The supplements are bonuses based on the reserves of policies credited to the policy reserve, additional benefits in the case of death, or lowering of insurance premiums. In Mandatum Life, the principle of fairness specifies the application of this feature. In unit-linked contracts the policyholder carries the investment risk by choosing the investment funds linked to the contracts.

### Measurement of insurance and investment contracts

National accounting standards are applied to all insurance contracts and to investment contracts with DPF, with the exception of the equalisation provision and changes in it.

All contracts, except unit-linked contracts and the assumed reinsurance, include DPF. In those unit-linked contracts which are not insurance contracts, the policyholder has the possibility to transfer the return on savings from unit-linked schemes to guaranteed interest with DPF. Thus, these contracts are also measured as contracts with DPF.

The surrender right, guaranteed interest and the unbundling of the insurance component from the deposit component and similar features are not separated and measured separately.

### Insurance and investment contract liabilities and reinsurance assets

Liabilities arising from insurance and investment contracts consist of provisions for unearned premiums and outstanding claims. In the life insurance business, various methods are applied in calculating liabilities which involve assumptions on matters such as mortality, morbidity, the yield level of investments, future operating expenses and the settlement of claims.

Changes in the liabilities of reinsurance have been calculated at variable rates of exchange.

In direct insurance, the insurance liability is calculated by policy, while in reinsurance it is calculated on the basis of the reports of the ceding company or the company's own bases of calculation.

The interest rate used in discounting liabilities is, at most, the maximum rate accepted by the authorities in each country. The guaranteed interest used in the direct insurance premium basis varies on the basis of the starting date of the insurance from zero to 4.5 per cent. The interest rate used in discounting liabilities is the same or lower than that used in premium calculation. Most of the liabilities of the accrued benefits of pension business with DPF are discounted by an interest rate of 3.5 per cent, also being the highest discount rate used. In addition, Mandatum Life has for the year 2014 lowered the maximum rate to 2.25% and for the year 2015 to 2.75%.

Due to the difference in the discount rate of liabilities and the guaranteed interest of 4.5%, supplementary provisions for guaranteed interest have been added to technical provisions. In the subsidiary, Mandatum Life Insurance Baltic, the discount rate varies by country between 2.0 - 4.0 per cent and the average guaranteed interest rate between 2.0 – 4.0 per cent.

Mortality assumptions have an essential effect on the amount of liability, particularly in group pension insurance, the liability of which accounts for about 32 per cent of the technical provisions of the Finnish life company. A so-called cohort mortality model is used in calculating the group pension insurance liability, incorporating the insured person's birth year in addition to his or her age and sex. The cohort mortality model assumes that life expectancy increases by one year over a ten-year period.

For unit-linked contracts, all the liabilities and the assets covering the unit-linked insurance are matched. Both the liabilities and the assets have been presented in the Notes to the financial statements. In calculating the provision for claims outstanding of direct insurance, discounting is applied only in connection with the liabilities of pensions whose payment has commenced. The liabilities of assumed reinsurance are based on the reports of the ceding company and on an estimate of claims which have not yet been settled. The assets covering the unit-linked liabilities include debt securities issued by the Group companies. These have not been eliminated. Elimination would lead to misleading information, as the policy holders carry the investment risk related to these investments, and to a mismatch between the unit-linked liabilities and assets covering them.

The provision for claims outstanding is intended to cover the anticipated future payments of all claims incurred. The provision for claims outstanding includes claim payments plus all costs of claim settlements.

The amounts of short- and long-term liabilities in technical provisions are determined annually. The Group's financial statements' Risk Management section elaborates on the change of technical provisions and their forecast annual maturities.

### Liability adequacy test

A liability adequacy test is applied to all portfolios, company by company, and the need for augmentation is checked, company by company, on the basis of the adequacy of the whole technical provisions. The test includes all the expected contractual cash flows for non-unit-linked liabilities. The expected contractual cash flows include expected premiums, claims, bonuses and expenses. The claims have been estimated including surrenders and other insurance transactions based on historical data. The amounts of claims include the guaranteed interest and an estimation of future bonuses. The present values of the cash flows have been discounted to the balance sheet date by using a swap rate curve.

For the unit-linked business, the present values of the insurance risk and expense results are calculated correspondingly. If the aggregate amount of the liability for the unit-linked and other business presumes an augmentation, the liability is increased by the amount shown by the test and recognised in profit or loss.

### Principle of fairness

According to Chapter 13, Section 2 of the Finnish Insurance Companies' Act, the Principle of Fairness must be observed in life insurance and investment contracts with a discretionary participation feature. If the solvency requirements do not prevent it, a reasonable part of the surplus has to be returned to these policies as bonuses.

Mandatum Life aims at giving a total return before charges and taxes on policyholders' savings in contracts with DPF that is at least the yield of those long term bonds, which are considered to have lowest risk. At the moment we consider German government bonds to be the most risk free long term bonds available. Nevertheless, Finnish government bonds are used as target levels at the moment. The total return consists of the guaranteed interest rate and bonuses determined annually. Continuity is pursued in the level of bonuses. The aim is to maintain the company's solvency status on such a level that it neither limits the giving of bonuses to policyholders nor the distribution of profit to shareholders. The principle is explained in detail on the company's website.

The legislation of Estonia, Latvia and Lithuania respectively does not contain provisions corresponding to the Principle of Fairness.

## Empoyee benefits

### Post-employment benefits

Post-employment benefits include pensions and life insurance.

Mandatum Life has defined contribution plans. The most significant defined contribution plan is that arranged through the Employees' Pensions Act (TyEL) in Finland.

In defined contribution plans, the Group pays fixed contributions to a pension insurance company and has no legal or constructive obligation to pay further contributions. The obligations arising from a defined contribution plan are recognised as an expense in the period that the obligation relates to.

The Group also has certain voluntary defined benefit plans. These are intra-Group, included in the insurance liabilities of Mandatum Life and have no material significance.

## Share-based payments

During the financial year, Sampo had three valid share-based incentive schemes settled in cash (the long-term incentive schemes 2009 I and 2011 I for executives and specialists). The Board has authorised the Nomination and Compensation Committee of the Board, or the CEO, to decide who will be included in the scheme, as well as the number of calculated bonus units granted for each individual used in determining the amount of the performance-related bonus. In Mandatum Life Group, a little less than 20 persons included in the schemes at the end of year 2013. Schemes have been measured at fair value at the grant date and at every reporting date thereafter.

In the schemes settled in cash, the valuation is recognised as a liability and changes recognised through profit or loss.

The fair value of schemes has been determined using the Black-Scholes-pricing model. The fair value of the market-based part of the incentive takes into consideration the model's forecast concerning the number of _bonus units to be paid as an incentive. The effects of non-market based terms are not included in the fair value of the incentive; instead, they are taken into account in the number of those share options that are expected to be exercised during the vesting period. In this respect, the Group will update the assumption on the estimated final number of bonus units at every interim or annual balance sheet date.

## Income taxes

Item Tax expenses in the income statement comprise current and deferred tax. Tax expenses are recognised through profit or loss, except for items recognised directly in equity or other comprehensive income, in which case the tax effect will also be recognised those items. Current tax is calculated based on the valid tax rate of each country. Tax is adjusted by any tax related to previous periods.

Deferred tax is calculated on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax is not recognised on non-deductible goodwill impairment, and nor is it recognised on the undistributed profits of subsidiaries to the extent that it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated by using the enacted tax rates prior to the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which a temporary difference can be utilised.

## Equity

Dividends are recognised in equity in the period when they are approved by the Annual General Meeting.

## Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits (3 months).

Mandatum Life presents cash flows from operating activities using the indirect method in which the profit (loss) before taxation is adjusted for the effects of transactions of a non-cash nature, deferrals and accruals, and income and expense associated with investing or financing cash flows.

In the cash flow statement, interest received and paid is presented in cash flows from operating activities. In addition, the dividends received are included in cash flows from operating activities. Dividends paid are presented in cash flows from financing.

## Accounting policies requiring management judgement and key sources of estimation uncertainties

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets, liabilities and contingent liabilities presented in the financial statements. Judgement is needed also in the application of accounting policies. The estimates made are based on the best information available at the balance sheet date. The estimation is based on historical experiences and most probable assumptions concerning the future at the balance sheet date. The actual outcome may deviate from results based on estimates and assumptions. Any changes in the estimates will be recognised in the financial year during which the estimate is reviewed and in all subsequent periods.

Mandatum Life's main assumptions concerning the future and the key uncertainties related to balance sheet estimates are related, for example, to assumptions used in actuarial calculations, determination of fair values of non-quoted financial assets and liabilities and investment property and determination of the impairment of financial assets and intangible assets. From Mandatum Life's perspective, accounting policies concerning these areas require most significant use of estimates and assumptions.

### Actuarial assumptions

The actuarial assumptions applied to life insurance liabilities are discussed in more detail under 'Insurance and investment contract liabilities and reinsurance assets'.

### Determination of fair value

The fair value of any non-quoted financial assets is determined using valuation methods that are generally accepted in the market. These methods are discussed in more detail above under 'Fair value'.

Fair values of investment property have been determined internally during the financial year on the basis of comparative information derived from the market. They include management assumptions concerning market return requirements and the discount rate applied.

## Application of new or revised IFRS's and interpretations

In 2014, the Group will apply the following new or amended standards and interpretations related to the Group's business.

IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on 1 Jan 2013 or latest on 1

Jan 2014) defines closer the concept of control as the crucial factor for consolidation. The new standard will have no material impact on the Group's financial statements reporting.

IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on 1 Jan 2013 or latest on 1 Jan 2014) includes requirements for disclosures regarding different involvements in other entities, such as associates and unconsolidated entities. The new standard will have an impact on the Group's disclosures.

Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on 1 Jan 2013 or latest on 1 Jan 2014) includes the requirements for separate financial statements to the extent they have not been included in the new IFRS 10. The adoption of the revised standard will have no material impact on the Group's financial statements reporting.

Revised IAS 28 *Investments in Associates* (effective for annual periods beginning on 1 Jan 2013 or latest on 1 Jan 2014) includes the requirements for using the equity method accounting for investments in associates and joint ventures. The adoption of the revised standard will have no material impact on the Group's financial statements reporting.

The amendment to IAS 32 *Financial Instruments: presentation* (effective for annual periods beginning on 1 Jan 2014 or after) specifies the presentation of situations when financial assets and liabilities are offset. The adoption of the amendment will have no material impact on the Group's financial statements reporting.

# Segment Information

Mandatum Life group´s segmentation is based on the division by the product group of domestic business and the other geographical organisation structure. The reported segments are "Unit linked contracts" (Finland), other businesses (Finland) and the Baltic countries.

The investment risks vary by a product group. The segment results are reported to the management of the company as a part of management reporting. The primary segmentation comprises a substantial parts of the geographical division, since operations in the Baltic countries compose on separate business segment. In connection with the expansion of the foreign operations shall also the division by country be expanded. Inter-segment transactions, assets and liabilities are eliminated in the consolidated financial statements on a line-by-line basis. Segment information has been produced in accordance with the accounting policies adopted for preparing and presenting the consolidated financial statements.

## CONSOLIDATED INCOME STATEMENT BY BUSINESS SEGMENT FOR YEAR ENDED 31 DECEMBER 2013

| EUR million | Unit-linked contracts (Finland) | Other contracts (Finland) | Baltic countries | Elimination | **Group** |
|---|---|---|---|---|---|
| Insurance premius | 904.4 | 151.6 | 31.6 | -24.4 | 1,063.1 |
| Net income from investments | 287.4 | 278.8 | 5.4 | -2.2 | 569.4 |
| Other operating income | | 4.3 | 0.0 | | 4.3 |
| | | | | | |
| Claims incurred | -340.7 | -384.5 | -24.4 | 18.2 | -731.3 |
| Change in liabilities for insurance and investment contracts 1) | -779.4 | 130.3 | -7.0 | 8.4 | -647.7 |
| Staff costs | -25.4 | -17.2 | -3.5 | | -46.0 |
| Other operating expenses | -32.3 | -19.0 | -2.6 | | -53.9 |
| | | | | | |
| Finance costs | | -6.6 | | | -6.6 |
| Share of associates' profit/loss | | 1.4 | | | 1.4 |
| | | | | | |
| **Profit before taxes** | **14.0** | **139.2** | **-0.5** | **0.0** | **152.7** |
| | | | | | |
| Taxes | -3.4 | -30.1 | 0.0 | 0.0 | -33.5 |
| | | | | | |
| **Profit for the year** | **10.6** | **109.1** | **-0.5** | **0.0** | **119.2** |
| | | | | | |
| **Other comprehensive income for the year** | | | | | |
| Exchange differences | | | | | 0.0 |
| Available-for-sale financial assets | | | | | 96.9 |
| Cash flow hedges | | | | | -0.3 |
| Income tax relating to components of other comprehensive income | | | | | 4.0 |
| **Other comprehensive income for the year, net of tax** | | | | | **100.6** |
| | | | | | |
| **Total comprehensive income for the year** | | | | | **219.8** |
| | | | | | |
| **Profit attributable to** | | | | | |
| Owners of the parent company | | | | | 119.2 |
| Non-controlling interests | | | | | 0.0 |
| | | | | | |
| **Total comprehensive income attributable to** | | | | | |
| Owners of the parent company | | | | | 219.8 |
| Non-controlling interests | | | | | 0.0 |

1) In the domestic segment the transition of liabilities between unit-linked and other contracts has been recognized. For the unit linked segment the transition results in a decrease of EURm 5.3 (EURm 10,5 in 2012) in the item Change in liabilities for insurance and investment contracts'.

## CONSOLIDATED INCOME STATEMENT BY BUSINESS SEGMENT FOR YEAR ENDED 31 DECEMBER 2012

| EUR million | Unit-linked contracts (Finland) | Other contracts (Finland) | Baltic countries | Elimination | Group |
|---|---|---|---|---|---|
| Insurance premius | 808.1 | 164.0 | 33.0 | -27.7 | 977.4 |
| Net income from investments | 302.6 | 261.2 | 12.8 | -2.2 | 574.5 |
| Other operating income | | 3.5 | 0.0 | | 3.5 |
| | | | | | |
| Claims incurred | -282.1 | -376.1 | -23.6 | 12.9 | -669.0 |
| Change in liabilities for insurance and investment contracts [1] | -768.3 | 124.8 | -15.6 | 17.0 | -642.1 |
| Staff costs | -19.9 | -19.1 | -3.4 | | -42.4 |
| Other operating expenses | -36.1 | -19.9 | -2.4 | | -58.4 |
| | | | | | |
| Finance costs | | -7.2 | | | -7.2 |
| Share of associates' profit/loss | | 0.0 | | | 0.0 |
| | | | | | |
| **Profit before taxes** | **4.2** | **131.2** | **0.8** | **0.0** | **136.1** |
| | | | | | |
| Taxes | -1.0 | -26.8 | 0.1 | 0.0 | -27.8 |
| | | | | | |
| **Profit for the year** | **3.2** | **104.3** | **0.9** | **0.0** | **108.4** |
| | | | | | |
| **Other comprehensive income for the year** | | | | | |
| Exchange differences | | | | | 0.0 |
| Available-for-sale financial assets | | | | | 236.2 |
| Cash flow hedges | | | | | -1.2 |
| Income tax relating to components of other comprehensive income | | | | | -57.6 |
| **Other comprehensive income for the year, net of tax** | | | | | **177.4** |
| | | | | | |
| **Total comprehensive income for the year** | | | | | **285.8** |
| | | | | | |
| **Profit attributable to** | | | | | |
| Owners of the parent company | | | | | 108.4 |
| Non-controlling interests | | | | | 0.0 |
| | | | | | |
| **Total comprehensive income attributable to** | | | | | |
| Owners of the parent company | | | | | 285.8 |
| Non-controlling interests | | | | | 0.0 |

1) In the domestic segment the transition of liabilities between unit-linked and other contracts has been recognized. For the unit linked segment the transition results in a decrease of EURm 10.5 (EURm -23.7 in 2011) in the item 'Change in liabilities for insurance and investment contracts'. The corresponding amount increases the respective segment item of other contracts.

## CONSOLIDATED BALANCE SHEET BY BUSINESS SEGMENT AT 31 DECEMBER 2013

| EUR million | Unit-linked contracts (Finland) | Other contracts (Finland) | Baltic countries | Elimination | Group |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Property, plant and equipment | 0.7 | 4.3 | 0.0 | | 5.1 |
| Investment property | | 105.2 | | | 105.2 |
| Intangible assets | 4.5 | 3.3 | 0.8 | | 8.5 |
| Investments in associates | | 1.4 | | | 1.4 |
| Financial assets | 35.6 | 5,060.2 | 26.5 | | 5,122.3 |
| Investments related to unit-linked insurance and investment contracts | 4,555.1 | 0.0 | 142.1 | -74.4 | 4,622.9 |
| Reinsurers' share of insurance liabilities | | 2.7 | 0.1 | | 2.8 |
| Other assets | | 80.5 | 0.8 | | 81.3 |
| Cash and cash equivalents | | 221.8 | 0.3 | | 222.1 |
| **Total assets** | **4,595.9** | **5,479.5** | **170.6** | **-74.4** | **10,171.6** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities for insurance and investment contracts | | 3,909.7 | 17.8 | | 3,927.5 |
| Liabilities for unit-linked insurance and investment contracts | 4,549.4 | 0.0 | 141.5 | -74.4 | 4,616.6 |
| Financial liabilities | | 110.8 | | | 110.8 |
| Tax liabilities | | 128.0 | | | 128.0 |
| Other liabilities | 3.1 | 124.9 | 0.7 | | 128.8 |
| **Total liabilities** | **4,552.6** | **4,273.3** | **160.0** | **-74.4** | **8,911.6** |
| | | | | | |
| **Equity** | | | | | |
| Share capital | | | | | 40.4 |
| Reserves | | | | | 621.1 |
| Retained earnings | | | | | 598.6 |
| **Equity attributable to parent company's equityholders** | | | | | **1,260.1** |
| Non-controlling interests | | | | | 0.0 |
| **Total equity** | | | | | **1,260.1** |
| | | | | | |
| **Total equity and liabilities** | | | | | **10,171.6** |

## CONSOLIDATED BALANCE SHEET BY BUSINESS SEGMENT AT 31 DECEMBER 2012

| EUR million | Unit-linked contracts (Finland) | Other contracts (Finland) | Baltic countries | Elimination | Group |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Property, plant and equipment | 0.9 | 4.5 | 0.1 | | 5.4 |
| Investment property | | 93.4 | | | 93.4 |
| Intangible assets | 6.1 | 4.1 | 0.8 | | 11.0 |
| Investments in associates | | 0.0 | | | 0.0 |
| Financial assets | 29.6 | 5,212.0 | 27.6 | | 5,269.2 |
| Investments related to unit-linked insurance and investment contracts | 3,764.6 | 0.0 | 135.1 | -65.9 | 3,833.8 |
| Reinsurers' share of insurance liabilities | | 3.4 | 0.1 | | 3.4 |
| Other assets | | 108.6 | 0.9 | | 109.6 |
| Cash and cash equivalents | | 153.6 | 0.3 | | 153.9 |
| **Total assets** | **3,801.2** | **5,579.6** | **164.9** | **-65.9** | **9,479.8** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities for insurance and investment contracts | | 4,052.1 | 18.7 | | 4,070.8 |
| Liabilities for unit-linked insurance and investment contracts | 3,764.7 | 0.0 | 134.3 | -65.9 | 3,833.1 |
| Financial liabilities | | 105.1 | | | 105.1 |
| Tax liabilities | | 153.1 | | | 153.1 |
| Other liabilities | 0.2 | 176.4 | 0.8 | | 177.4 |
| **Total liabilities** | **3,764.9** | **4,486.8** | **153.9** | **-65.9** | **8,339.6** |
| | | | | | |
| **Equity** | | | | | |
| Share capital | | | | | 40.4 |
| Reserves | | | | | 520.4 |
| Retained earnings | | | | | 579.5 |
| **Equity attributable to parent company's equityholders** | | | | | **1,140.3** |
| Non-controlling interests | | | | | 0.0 |
| **Total equity** | | | | | **1,140.3** |
| | | | | | |
| **Total equity and liabilities** | | | | | **9,479.8** |

# Risk Management Notes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# Risk management

## 1. Risk management principles

Risk is an essential and inherent element of Mandatum Life's business activities and operating environment. The purpose of the risk management process is to identify the different risks affecting the business. The risk management process also ensures that different risks can be assessed, limited and controlled.

The key objectives for the risk management process are to ensure capital adequacy in relation to the risks inherent in business activities, to limit fluctuations in financial results, to guarantee efficient and continued business processes under all circumstances and to limit the risks of all operations to a level accepted by Mandatum Life's Board of Directors.

Mandatum Life Insurance Company Ltd is a wholly owned subsidiary of Sampo plc. Mandatum Life follows the risk management principles defined by the Sampo Group where the characteristics of a life insurance company have been taken into account. Similar principles are also used in Mandatum Life Insurance Baltic SE. Figures and tables in this risk management disclosure mainly cover the parent company.

### 1.1 Risk management governance

Mandatum Life's Board of Directors is responsible for the adequacy of the company's risk management and internal control. Mandatum Life's Board annually approves the Risk Management Plan, Investment Policy and other guidance on the organization of risk management and internal control in the business operations.

The managing director of Mandatum Life has the overall responsibility for the implementation of risk management in accordance with the Board's guidance. Line organizations are responsible for the identification, assessment, control and management of their operational risks

- The Risk Management Committee (RMC) coordinates and monitors all risks in Mandatum Life. The Committee is chaired by the Managing Director. Risks are divided into main groups which are insurance, market, operational, legal and compliance risks as well as business and reputational risks. Risks related to the Baltic subsidiary are also included. Each risk area has a responsible person in the Committee.

- Mandatum Life's Asset and Liability Committee (ALCO) controls that the investment activities are conducted within the limits defined in the Investment Policy approved by the Board and monitors the adequacy of liquidity, profitability and solvency capital in relation to the risks in the balance sheet. ALCO prepares a proposal of Investment Policy to the Board of Directors. ALCO reports to the Board and meets at a minimum on a monthly basis.

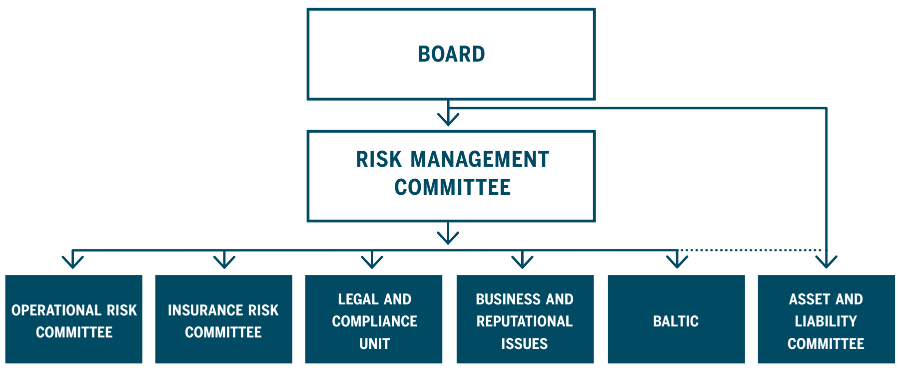
- The Insurance Risk Committee is responsible for maintaining the Underwriting Policy and monitoring the functioning of the risk selection and claims processes. The Committee also reports all deviations from the Underwriting Policy to the RMC. The Insurance Risk Committee is chaired by the Chief Actuary who is responsible for ensuring that the principles for pricing policies and for the calculation of technical provisions are adequate and in line with the risk selection and claims processes. The Board approves the insurance policy pricing and the central principles for the calculation of technical provisions. In addition, the Board defines the maximum amount of risk to be retained on the company's own account and approves the reinsurance policy annually.
- The Operational Risk Committee (ORC) analyzes and handles operational risks, e.g. in relation to new products and services, changes in processes and risks as well as realized operational risk incidents. Significant observations are reported to the Risk Management Committee and to the Board of Directors quarterly. ORC is also responsible for maintaining and updating the continuity and preparedness plans as well as the Internal Control Policy.

- The Legal and Compliance Unit is taking care of compliance matters and Head of the Unit is a member of the Risk Management Committee. Managing director is responsible for business and reputation risk issues and he is also the Chairman of the Risk Management Committee.

- The Baltic subsidiary has its own risk management procedures. All major incidents are also reported to Mandatum Life's Risk Management Committee. The Chairman of the Baltic Subsidiary is a member of the Risk Management Committee.

In addition the above mentioned committees and units, the Internal Audit with its audit recommendations has a role to ensure that adequate internal controls are in place and provides Internal Audit's annual review to the Board of Directors.

**Figure 1–1: Risk management organization**



## 2. Risks related to mandatum life's business activities

The main risks of Mandatum Life Group are insurance risks and market risks of assets and liabilities. Operational and business risks are inherent in all business operations.

Life insurance business carries and manages risks originating from insurance events and liabilities. There are random fluctuations in the frequency and size of insurance events. The major part of life insurance business risks and result arises from investment assets. Return on assets should cover, in the long term, at least the guaranteed interest rate, bonuses based on the principle of fairness and the shareholders' return expectations. Other profit elements are generated from carrying insurance risk and expense risk. The insurance risk result is the assumed claims in premium calculations less the actual claims. It is managed, for example, through careful risk selection and reinsurance. The expense result is the expense charges from policies less the actual expenses. It is managed by continuously monitoring expenses, by improving efficiency and by using an expense charge structure that provides income through the policy's whole life cycle.

## 3. Capital management

The goal of capital management is to ensure the adequacy of available capital in relation to risks arising from the company's business activities and business environment. The current capital adequacy is assessed by comparing the amount of available capital to the amount of capital required to bear the risks arising from the current business activities.

### 3.1 Regulatory capital

Life insurance is a highly regulated business with formal rules for minimum capital and capital structure. The supervisors of Mandatum Life Group are the Financial Supervisory Authority in Finland and local supervisors in the Baltic countries.

Solvency capital and minimum requirement for solvency capital, the measures defined in the EU directives, are reported to the supervisory authorities quarterly. In addition, extended solvency capital and the related solvency requirement, as defined in the early warning solvency rules, are reported in Finland quarterly. Early warning solvency rules have been effective in the Finnish Insurance Companies Act as of October 2008. The purpose of the early warning solvency rules is to provide a more accurate view on the actual risks of an insurance company than the requirements of the EU directives.

The solvency margin of Mandatum Life Group's parent company (Mandatum Life Ltd) was EUR 1,385 million (1,378), while the corresponding regulatory minimum requirement was EUR 222 million (222). The early warning solvency requirements were also clearly fulfilled. The solvency margin of the Baltic subsidiary was EUR 9.8 million (10.2) and minimum requirement EUR 3.7 million (3.5).

### 3.2 Economic capital

Economic capital is an internal measure of Sampo Group which describes the capital required to bear different kinds of risks. Economic capital is defined as the amount of capital required on the Group level to protect the economic solvency over a one year time horizon with a 99.5 per cent confidence level. Economic capital is mainly a Group level measure in Sampo Group, but it is used also in Mandatum Life. However, a situation where the economic capital requirement is not met does not automatically result in immediate corrective measures in Mandatum Life, as long as the capital position of Sampo Group is adequate and Mandatum Life has access to additional capital if needed or correspondingly, balance sheet's risk level – through which the amount of economic capital – could be quickly reduced to a lower level.

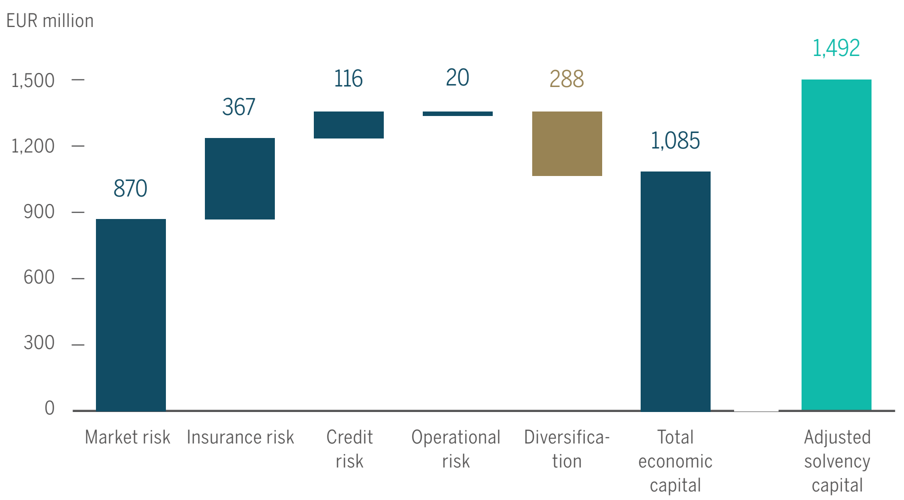
Economic capital covers market, credit, insurance and operational risks. Economic capital does not only reflect the capital needed for the different kinds of risks, but also their mutual diversification effect. This gives a more realistic view of the overall capital needs as it is very unlikely that all risks will materialize simultaneously.

Calculations of economic capital requirements in Mandatum Life are based on a total balance sheet approach, which means that values and risks of assets and liabilities are recognized as market consistently as possible. Market consistent value of liabilities is estimated by using stochastic simulation. Where applicable, the approach for the calculation and the most critical parameters are similar to what was used in the fourth Quantitative Impact Study (QIS 4) in Solvency II.

Economic capital is compared with adjusted solvency capital, which is normal solvency capital plus the difference between market consistent value of liabilities, in which a risk margin is added, and book value of liabilities. On 31 December 2013 the adjusted solvency capital of Mandatum Life Group was EUR 1,492 million (1,076) and the corresponding economic capital calculated with the 99.5 per cent confidence level was EUR 1,085 million (1,110).

Roughly 80 per cent of the economic capital consists of market and credit risks. Market risks consist mainly of interest rate and equity risk. The most crucial insurance risks are longevity risk and surrender risk.

**Figure 3–1: Breakdown of economic capital and adjusted solvency capital on 31 December 2013**



## 4. Market risks and market risk management and control

Market risks refer to fluctuations in the company's financial results or solvency caused by changes in market values of financial assets and liabilities as well as technical provisions. Market risks are examined from both an ALM as well as an investment portfolio risk perspectives.

In Mandatum Life, the approach to market risk management is based on an analysis of technical provisions' expected cash flows, interest level and current solvency position. A common feature for all with-profit technical provisions is the guaranteed rate and bonuses based on principle of fairness. The cash flows of Mandatum Life´s technical provisions are relatively well predictable because in most of the company's with-profit policies, surrenders and extra-investments are not possible.

Mandatum Life's market risks arise mainly from equity investments and interest rate risk related to fixed income assets and insurance liabilities with a guaranteed interest rate. The most significant interest rate risk in the life insurance business is that fixed income investments will not, over a long period of time, generate a return at least equal to the guaranteed interest rate of technical provisions. The probability of this risk increases when market interest rates fall and stay at a low level. The duration gap between balance sheet's technical provisions and fixed income investments are constantly monitored and managed.

Mandatum Life has prepared for low interest rates on the liability side by e.g. reducing the minimum guaranteed interest rate in new contracts and by supplementing the technical provisions by applying a lower discount rate. In addition, existing contracts have been changed to accommodate improved management of reinvestment risk.

The Board approves the Investment Policy annually, which sets principles and limits for investment activities. The Investment Policy also includes measures and limits for maximum acceptable market risk. These measures and limits are based on both Solvency I and Solvency II type of approaches. When it comes to the Solvency I type of approach, limits are set above Solvency I requirements using a VAR analysis of the investment assets. In the Solvency II type of approach, limits are set based on different confidence levels in addition to the 99.5 per cent level used in Sampo Group. ALCO reports limit breaches to the Board who makes the decisions related to the capitalization and the market risks in the balance sheet. The general objective is to maintain the required solvency and to ensure that investment assets are at a sufficient level and eligible for covering technical provisions.

Sampo plc's investment organization makes the day-to-day investment decisions based on principles set in Mandatum Life's Investment Policy. However, the most significant investment decisions are made by the Board. The ALCO regularly monitors that limits and principles defined in the Investment Policy are followed and reports on investment risks to the Board.

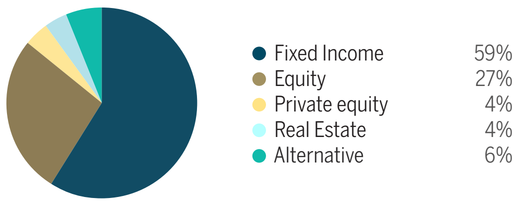
The investment organization and Mandatum Life have a thorough understanding of Nordic markets and issuers and, consequently, the company's direct investments are mainly made into Nordic securities. When investing in non-Nordic securities, funds or other third party managed investment solutions are mainly used. These investments are primarily used as a tool in tactical asset allocation when seeking return and secondarily in order to increase diversification. One of the objectives of the investment activities is to ensure sufficient diversification between and inside each asset class.

In 2013 the net investment return of Mandatum Life was 7.1 per cent (9.4), as especially equity investments performed well. The proportion of equity investments decreased by 2 percentage points to 27 per cent while proportion of fixed income increased by 1 percentage point to 59 per cent.

The values of financial assets and liabilities are subject to changes in the underlying market variables. Table 4-2 shows the sensitivity analysis of the fair values of financial assets and financial liabilities to different market risk scenarios. The effects represent the instantaneous effects of a one-off change in

**Figure 4–1: Allocation of investments on 31 December 2013 and 2012**

**31.Dec.2013**
EUR 5,452 million




**31.Dec.2012**
EUR 5,519 million

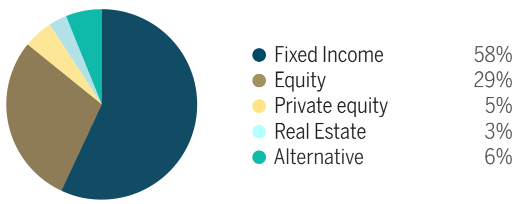



**Table 4–2: Sensitivity analysis of investments on 31 December 2013 and 2012**

| | Interest Rate | | Equity | Other Financial Investments |
|---|---|---|---|---|
| EUR million | 1% parallel shift down | 1% parallel shift up | 20% fall in prices | 20% fall in prices |
| Year 2012 | 1 | -21 | -316 | -152 |
| Year 2013 | 52 | -66 | -290 | -148 |

the underlying market variable on the fair values on 31 December 2013. In addition, a parallel 10 per cent decrease in the value of all currencies against euro would decrease the company's equity, before taxes, by EUR 54 million.

### 4.1 Equity risks

Equity price risk is the risk of losses due to changes in share prices. At year end Mandatum Life's equity investment amounted to EUR 1,448 million (1,578 million in 2012).

Mandatum Life's equity portfolio is actively managed. The positions and risks in equity portfolio and the related derivatives may not exceed the limits set in the Investment Policy. The Nordic equity portfolio is managed by Sampo Group's Investment Management unit while the equity investments outside the Nordic area are mainly managed through funds or external asset managers. Figure 4-3 presents the geographical allocation of equity investments.

Section 4.5 contains a list of the ten largest equity investments while breakdown of direct equity investments by industries is shown in section 5.

### 4.2 Risks related to fixed income investments

Mandatum Life's risks related to fixed income investments include interest rate risk related to changes in market interest rates as well as spread risk arising from changes in the credit spreads of fixed income investments resulting in changes in the values of respective investments.

The most significant interest rate risk in the life insurance business is that fixed income investments will not, over a long period of time, generate a return at least equal to the guaranteed interest rate of technical provisions. The probability of this risk increases when market interest rates fall and remain at a low level. Solvency position improves in short term according to Solvency I when interest rates fall, but at the same time solvency position deteriorates in early warning system and in economic capital. According to Mandatum Life's Investment Policy, the interest rate risk and inflation risk of technical provisions must be taken into account when defining the composition of investment assets. Mandatum Life's duration gap between technical provisions and fixed income investments is constantly monitored and managed. Control levels based on internal capital model are used to manage and ensure adequate capital in different market situations.

The average duration of Mandatum Life's technical provisions (excluding unit-linked technical provisions) was 8.6 years at the year-end. The duration of fixed income investments including hedging derivatives was 1.8 years (1.8) at the year-end.

When it comes to technical provisions, Mandatum Life has prepared for low interest rates on the liability side by e.g. reducing the guaranteed interest rate in new contracts and increasing the reserve for policies with higher guaranteed interest rates. In addition, existing contracts have been changed to accommodate improved management of reinvestment risk and the technical provisions have been supplemented by the reserve for decreased discount rate. More information about the reserve can be found in insurance risks section.

Majority of the company's fixed income investments are made in debt instruments issued by corporations. This increases the risk arising from increased credit spreads which, in turn, lead to value alterations. Table 4-4 illustrates the breakdown of the fixed income investments by type of instruments as well as their average maturity. The maturity measures the company's spread risk exposure better than the duration. This is true especially when it comes to floating interest rate investments. Table 5-1 shows the breakdown of investment assets by instruments based on division of industry and credit rating.

Table 4-4 presents the breakdown of Mandatum Life's fixed income investments by type of instruments. At the end of 2013, the proportion of short-term fixed income investments was 17.0 per cent (17.4) of the fixed income portfolio. The proportion of government bonds increased to 22.4 per cent (0.4 per cent at the end of 2012). As a consequence the proportion of investment grade bonds and loans decreased to 20 per cent (35.3 per cent on 31 December 2012).

Table 7-4 in the insurance risk section shows the maturity and average durations of Mandatum Life's insurance and investment contracts.

**Figure 4–3: Mandatum Life's allocation of equity investments on 31 December 2013**

**EUR 1,448 million**

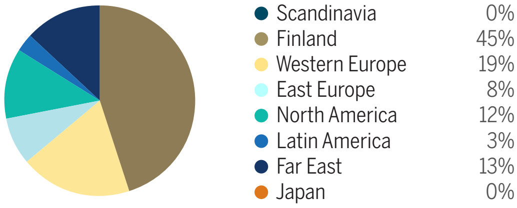



**Table 4–4: Fixed income investments by type of instruments on 31 December 2013**

| | % of Fixed Income Portfolio | Average Maturity |
|---|---|---|
| Money Market Securities and Cash | 17.0% | 0.4 |
| Government Bonds | 22.4% | 2.2 |
| Covered Bonds | 3.9% | 2.2 |
| Investment Grade Bonds and Loans | 20.0% | 1.5 |
| High Yield Bonds and Loans | 29.3% | 3.1 |
| Asset Backed Securities | 0.0% | 0.0 |
| Subordinated / T2 -type | 1.7% | 3.0 |
| Subordinated / T1 -type | 4.8% | 5.0 |
| Interest Rate Derivatives | 0.4% | 0.0 |
| Policy Loans | 0.6% | 1.3 |
| **Total** | **100.0%** | **2.2** |

### 4.3 Currency risks

Mandatum Life's parent company's technical provisions are denominated in Euros, and currency risk therefore arises from investments in other currencies than Euro. Mandatum Life's currency strategy is based on active management of the currency position. The objective is to achieve positive return relative to a situation where the open currency risk exposure is fully hedged, considering the limits imposed by the investment policy. The Table 4-5 below shows the net currency exposures (net assets) after the effect of derivatives has been taken into account on 31 December 2013.

### 4.4 Other market risks

In addition to interest rate, equity, and currency risks, Mandatum Life's investment assets are exposed to real estate, private equity funds, alternative investments and commodity related market risks. Mandatum Life's Investment Policy sets limits for maximum allocations into these markets and products. On 31 December 2013 the share of the above mentioned investments was 14 per cent of Mandatum Life's total investment portfolio.

Private equity funds and alternative investments are managed by external asset managers. The private equity fund portfolio is diversified both according to fund type and geographical areas. Alternative investments are placed both directly into individual funds and into funds of funds in order to attain sufficient diversification between funds and investment styles.

The real estate portfolio in Mandatum Life is managed by Sampo Group's real estate management unit. The portfolio includes direct investments in properties as well as indirect investments in real estate funds and shares and debt instruments in real estate companies in accordance with the decided allocation. The main risks related to property investments are limited by diversifying holdings both geographically and by type of property.

### 4.5 Risk concentrations of the investment operations

Mandatum Life's Investment Policy sets limits for investments in individual companies. For example, the requirements for the assets covering technical provisions and the credit ratings of investments are taken into account when setting these limits. Risk concentrations are monitored continuously. The Table 4-6 shows Mandatum Life's market and credit risk concentrations in individual counterparties by asset class.

Table 4-7 illustrates ten largest equity investments separately and their proportion of the total direct equity investments. In addition to the Finnish direct equity investments, the company invests into foreign equities through investment funds and ETF funds. Investments made through equity funds and ETFs constitute 54 per cent of the total equity investments. Furthermore, largest exposures of high-yield and non-rated fixed income investments are broken down in Figure 4-8.

**Table 4–5: Net currency exposures on 31 December 2013**

| EUR million<br>Transaction risk position | USD | JPY | GBP | SEK | NOK | CHF | DKK | LTL | LVL | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Technical provisions | 0 | 0 | 0 | -4 | 0 | 0 | 0 | 0 | 0 | 0 | -4 |
| Investments | 1,056 | 7 | 237 | 39 | 3 | 96 | 17 | 2 | 0 | 185 | 1,641 |
| Derivatives | -885 | -6 | -219 | 70 | 108 | -94 | 0 | 0 | 0 | -73 | -1,099 |
| **Total transaction risk, net position** | **171** | **1** | **18** | **105** | **111** | **2** | **17** | **2** | **0** | **112** | **538** |

**Table 4–6: Concentration of market and credit risks in individual counterparties by asset class, 31 Dec 2013**

| EUR million<br>Counterparty | Total fair value, EURm | % of total investment assets | Cash & short-term fixed income | Long-term fixed income, total | Long-term fixed income: Government guaranteed | Long-term fixed income: Covered bonds | Long-term fixed income: Senior bonds | Long-term fixed income: Tier 1 and Tier 2 | Equities | Uncollateralized derivatives |
|---|---|---|---|---|---|---|---|---|---|---|
| Netherlands | 476 | 9% | 0 | 476 | 0 | 0 | 476 | 0 | 0 | 0 |
| Skandinaviska Enskilda Banken | 237 | 4% | 139 | 97 | 0 | 0 | 44 | 53 | 0 | 1 |
| UPM-Kymmene | 223 | 4% | 0 | 106 | 0 | 0 | 106 | 0 | 117 | 0 |
| Danske Bank | 178 | 3% | 114 | 64 | 0 | 0 | 37 | 27 | 0 | 0 |
| Svenska Handelsbanken | 145 | 3% | 125 | 21 | 0 | 0 | 17 | 3 | 0 | 0 |
| Germany | 139 | 3% | 0 | 139 | 0 | 0 | 139 | 0 | 0 | 0 |
| OP-Pohjola | 121 | 2% | 95 | 26 | 0 | 0 | 26 | 0 | 0 | 0 |
| Fortum | 105 | 2% | 0 | 23 | 0 | 0 | 23 | 0 | 82 | 0 |
| France | 100 | 2% | 0 | 100 | 0 | 0 | 100 | 0 | 0 | 0 |
| Eksportfinans | 100 | 2% | 0 | 100 | 0 | 0 | 100 | 0 | 0 | 0 |
| **Total top 10 exposures** | **1,824** | **34%** | **473** | **1,150** | **0** | **0** | **1,067** | **83** | **199** | **1** |
| Other | 3,619 | 66% | | | | | | | | |
| Total investment assets | 5.443 | 100% | | | | | | | | |

**Table 4–7: Ten largest direct equity investments, 31 Dec 2013**

| Top 10 equity investments | Total fair value, EURm | % of total equity direct investments |
|---|---|---|
| UPM-Kymmene Plc | 117 | 17% |
| Fortum Plc | 82 | 12% |
| Amer Sports-A Plc | 60 | 9% |
| YIT Plc | 44 | 7% |
| Nokian Renkaat Plc | 38 | 6% |
| Wärtsilä Plc | 36 | 5% |
| Metso Plc | 35 | 5% |
| Lassila Tikanoja Plc | 33 | 5% |
| Tikkurila Plc | 31 | 5% |
| Kemira Plc | 16 | 2% |
| **Total top 10 exposures** | **495** | **74%** |
| Other direct equity investments | 178 | 26% |
| **Total direct equity investments** | **673** | **100%** |

**Table 4–8: Ten largest high yield and non-rated fixed income investments, 31 Dec 2013**

| Top 10 high yield and not-rated fixed income instruments | Rating | Total fair value, EURm | % of total fixed income investment assets |
|---|---|---|---|
| UPM-Kymmene Plc | BB | 106 | 6% |
| Eksportfinans ASA | BB- | 100 | 3% |
| Stora Enso Plc | BB | 76 | 2% |
| Skandinaviska Enskilda Banken, Stockholm | A+ | 53 | 1% |
| Neste Oil Plc | NR | 49 | 1% |
| Sponda Plc | NR | 31 | 1% |
| Sanoma Plc | NR | 26 | 1% |
| Ovako Group Ab | NR | 24 | 1% |
| Nokia Solutions and Networks Finance B.V. | B+ | 23 | 1% |
| Uponor Plc | NR | 22 | 1% |
| **Total top 10 exposures** | | **509** | **17%** |
| Other direct fixed income investments | | 2,451 | 83% |
| **Total direct fixed income investments** | | **2,960** | **100%** |

## 5. Credit risks

Credit risk is the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, derivative counterparties and any other debtors. Credit risks arise from investments as well as insurance and re-insurance contracts.

In Mandatum Life, credit risk can materialize as market value losses when credit spreads are changing unfavourably (spread risk) or as credit losses when issuers of credit instruments or counterparties of financial derivatives or reinsurance transactions are failing to meet their financial obligations (default risk). The role of credit risk with current asset allocation is remarkable from both risk exposures and risk management point of view.

In addition to the credit risks associated with investment assets, credit risks arise from reinsurance contracts. Credit risks related to reinsurers arise through reinsurance receivables and through the reinsurers' portion of technical provisions. In Mandatum Life credit risks related to reinsurance are relatively low compared to the credit risks associated with investment assets.

Investments in fixed income instruments in financial sector comprise the largest industry concentration inside Mandatum Life's investment portfolio.

**Table 5–1: Investment exposures according to asset classes, sectors and fixed income investments according to rating, 31 Dec 2013**

| | Fixed income | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EUR million | AAA | AA+ – AA– | A+ – A– | BBB+ – BBB– | BB+ – C | D | Not rated | Fixed income total | Equities | Other | Counter-party risk | Total | Change 31 Dec 2012 |
| Basic Industry | 0 | 0 | 0 | 8 | 211 | 0 | 67 | **286** | 183 | 0 | 0 | **468** | **-77** |
| Capital Goods | 0 | 0 | 8 | 29 | 12 | 0 | 37 | **86** | 131 | 0 | 0 | **218** | **-114** |
| Consumer Products | 0 | 0 | 3 | 29 | 57 | 0 | 71 | **160** | 105 | 0 | 0 | **265** | **-14** |
| Energy | 0 | 0 | 14 | 15 | 0 | 0 | 49 | **77** | 3 | 0 | 0 | **80** | **-10** |
| Financial Institutions | 0 | 352 | 455 | 63 | 220 | 0 | 0 | **1,090** | 23 | 21 | 5 | **1,139** | **-336** |
| Governments | 151 | 576 | 0 | 0 | 0 | 0 | 0 | **727** | 0 | 0 | 0 | **727** | **715** |
| Health Care | 0 | 0 | 0 | 0 | 27 | 0 | 19 | **45** | 10 | 0 | 0 | **55** | **55** |
| Insurance | 0 | 0 | 0 | 21 | 0 | 0 | 18 | **39** | 17 | 0 | 0 | **56** | **-31** |
| Media | 0 | 0 | 0 | 0 | 12 | 0 | 26 | **38** | 1 | 0 | 0 | **40** | **11** |
| Real Estate | 0 | 0 | 0 | 0 | 0 | 0 | 31 | **31** | 0 | 170 | 0 | **201** | **16** |
| Services | 0 | 0 | 0 | 0 | 51 | 0 | 18 | **70** | 42 | 12 | 0 | **124** | **1** |
| Technology and Electronics | 0 | 0 | 0 | 0 | 28 | 0 | 0 | **28** | 72 | 0 | 0 | **100** | **27** |
| Telecommunications | 0 | 0 | 6 | 96 | 30 | 0 | 13 | **145** | 0 | 0 | 0 | **145** | **-19** |
| Transportation | 0 | 0 | 7 | 31 | 0 | 0 | 5 | **43** | 1 | 0 | 0 | **44** | **-1** |
| Utilities | 0 | 0 | 61 | 52 | 0 | 0 | 0 | **114** | 82 | 2 | 0 | **198** | **-74** |
| Others | 0 | 0 | 0 | 0 | 0 | 0 | 13 | **13** | 3 | 8 | 0 | **25** | **6** |
| Covered Bonds | 61 | 53 | 11 | 0 | 0 | 0 | 0 | **125** | 0 | 0 | 0 | **125** | **-13** |
| Funds | 0 | 0 | 0 | 0 | 0 | 0 | 112 | **112** | 775 | 548 | 0 | **1,435** | **-203** |
| **Total** | **211** | **981** | **565** | **343** | **649** | **0** | **480** | **3,230** | **1,448** | **761** | **5** | **5,443** | **-60** |
| **Change 31 Dec 2012** | **137** | **436** | **-349** | **-46** | **-13** | **0** | **-99** | **66** | **-130** | **2** | **3** | **-60** | |

## 5.1 Credit risk management

The selection of direct debt investments is based primarily on 'bond-picking' and secondarily on top-down allocation. This investment style may lead into situation where portfolio is not as diversified as the finance theory suggests but includes thoroughly analysed investments with risk-return-ratios in focus. Critical success factors of making fixed income investments are considered to be the following:

1) Potential investments must be understood thoroughly. Hence, the creditworthiness of the issuer or counterparty is assessed together with collaterals and other structural details of instruments. Although external credit ratings by rating agencies are used to support the internal assessment, own internal assessment is always the most important factor in decision making.

2) When the details of an instrument are understood and the related earnings potential and risks are considered to be in balance, investment transaction shall be executable in a short notice regardless of instrument type. This puts pressure on credit limit structures and procedures that must be at the same time (i) flexible enough to facilitate fast decision making regardless of instrument type, (ii) well-structured to ensure that investment opportunities are assessed prudently, taking into account the specific features and risks of all investment types and (iii) they must restrict the maximum exposure of single name risk to the level that is in balance with the company's risk appetite. During the last years, credit limit structures and procedures have been in focus when developing the companies' Investment Policies.

3) Credit exposure accumulations over single names and products are monitored regularly at company level and at Group level to identify unwanted concentrations. Credit exposures are reported, for instance, by sectors and asset classes and within fixed income by ratings. Individual issuers' and counterparties' credit ratings are monitored continuously.

Derivatives' counterparty risk is managed and mitigated by bilateral ISDA and CSA agreements.

# 6. Liquidity risk

Liquidity risk is the risk that Mandatum Life would be unable to realize investments and other assets in order to settle its financial obligations when they fall due.

A relatively small part of liabilities can be surrendered and it is therefore possible to forecast short-term cash flows related to claims payments in a reliable manner. In addition, the assets are liquid and thus, liquidity risk is currently not significant to Mandatum Life.

# 7. Insurance risks

Insurance risks in the life insurance business encompass biometric risks, discount rate risk in technical provisions and other life insurance risks, that is, surrender risk, lapse risk and expense risk. This chapter presents the development of these life insurance risks during 2013. In addition, the life insurance risk management principles are presented.

**Table 6–1: Cash flows according to contractual maturity on 31 December 2013**

| | CARRYING AMOUNT TOTAL | | | CASH FLOWS | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **EUR million** | **Carrying amount total** | **Carrying amount without contractual maturity** | **Carrying amount with contractual maturity** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019-2028** | **2029-** |
| **Life Insurance** | | | | | | | | | | |
| Financial assets | 5,352 | 2,296 | 3,056 | 1,055 | 437 | 816 | 333 | 263 | 199 | 66 |
| of which interest rate swaps | 25 | 0 | 25 | 0 | 0 | 0 | 0 | 0 | 0 | 46 |
| Financial liabilities | 137 | 0 | 137 | -7 | -9 | -10 | -12 | 2 | -68 | -243 |
| of which interest rate swaps | 7 | 0 | 7 | 1 | -2 | -6 | -7 | 8 | 0 | 0 |
| Net technical provisions | 3,782 | 0 | 3,782 | -403 | -377 | -353 | -332 | -296 | -1,954 | -1,442 |

## 7.1 Biometric risks

Biometric risks in life insurance refer mainly to the risk that the company has to pay more mortality, disability or morbidity benefits than expected or the company has to keep paying pension payments to the pension policy holders for a longer time (longevity risk) than expected when pricing the policies. The specific case in which a single event or series of single events of major magnitude leads to a significant deviation in actual benefits and payments from the total expected payments is called catastrophe risk.

Long duration of policies and restriction of Mandatum Life's right to increase tariffs increases biometric risks. If the premiums turn out to be inaccurate and pricing cannot be changed afterwards, technical provisions have to be supplemented with an amount corresponding to the expected losses

Table 7-1 shows the insurance risk result in Mandatum Life's Finnish life insurance policies. The ratio of the actual claims costs to the assumed was 79 per cent in 2013 (82). Sensitivity of the insurance risk result can also be assessed on the basis of the information in the Table 7-1. For example the increase of mortality by 100 per cent would increase the amount of benefit payments from EUR 16 million to approximately EUR 32 million.

Longevity risk is the most critical biometric risk in Mandatum Life. Most of the longevity risk arises from the with-profit group pension portfolio. With-profit group pension policies have mostly been closed for new members for years and due to this the average age of members is around 69 years. In the unit-linked group pension and individual pension portfolio the longevity risk is less significant because most of these policies are fixed term annuities including death cover compensating the longevity risk.

The annual longevity risk result and longevity trend is analyzed regularly. The assumed life expectancy related to the technical provisions for group pensions was revised in 2002 and additional changes were made in 2007. The cumulative longevity risk result has been positive since these revisions. The longevity risk result of group pension for the year 2013 was EUR 0.6 million (EUR -0.7 million in 2012).

Mortality risk result in life insurance is positive. A possible pandemic is seen as the most significant risk that could adversely affect the mortality risk result.

The insurance risk result of other biometric risks has been profitable in total, although the different risk results differ considerably. In a longer term, disability and morbidity risks are mitigated by the company's right to raise insurance premiums for existing policies in case the claims experience deteriorates.

The insurance portfolio of Mandatum Life is relatively well diversified and does not include major concentration risks. To further mitigate the effects of possible risk concentrations, Mandatum Life has the catastrophe reinsurance in place.

In addition to the biometric risks described above, Mandatum Life is exposed to other risks such as discount rate risk, lapse risk and surrender risk which are described in the following chapters.

New gender neutral pricing is fully in-force for all new retail policies with biometric risks. The gender neutral pricing is also applied to existing policies in relation to private persons´ risk cover (excluding death cover). These changes create more uncertainty for the future, although changes are not expected to have a significant impact on risk result.

## 7.2 Discount rate risk in liabilities

Discount rate risk in technical provisions is the main risk affecting the adequacy of technical provisions. The guaranteed interest rate in policies is fixed for the whole policy period. Thus, if market interest rates and expected investment returns fall, technical provi-

**Table 7–1: Claim ratios after reinsurance, 2013 and 2012**

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| **EUR million** | **Risk income** | **Claim expense** | **Claim ratio** | **Risk income** | **Claim expense** | **Claim ratio** |
| **Life insurance** | **47.4** | **27.1** | **57%** | **42.4** | **25.2** | **59%** |
| Mortality | 29.8 | 16.1 | 54% | 25.9 | 14.9 | 57% |
| Morbidity and disability | 17.6 | 11.0 | 62% | 16.5 | 10.3 | 62% |
| **Pension** | **57.5** | **55.5** | **97%** | **57.7** | **57.3** | **99%** |
| Individual pension | 9.1 | 9.8 | 108% | 9.5 | 10.1 | 106% |
| Group pension | 48.4 | 45.7 | 94% | 48.2 | 47.2 | 98% |
| Mortality (longevity) | 43.9 | 43.3 | 99% | 43.5 | 44.2 | 102% |
| Disability | 4.5 | 2.4 | 52% | 4.7 | 3.0 | 64% |
| **Total** | **104.8** | **82.6** | **79%** | **100.1** | **82.5** | **82%** |

sions may have to be supplemented.

In most with-profit policies, the guaranteed interest rate is 3.5 per cent. In individual policies sold in Finland before 1999, the guaranteed interest rate is 4.5 per cent, which is also the statutory maximum discount rate of these policies. With respect to these policies, the maximum discount rate used when discounting technical provisions has been decreased to 3.5 per cent. As a result, technical provisions have been supplemented with EUR 75 million. In addition, EUR 44 million has been reserved to lower the interest rate of with-profit liabilities to 2.25 per cent in 2014 and EUR 26 million for the year 2015 to lower the interest rate of with-profit liabilities to 2.75 per cent, i.e. Mandatum Life has set up an extra reserve of EUR 146 million as part of technical provisions (118).

The provisions related to each product type and guaranteed interest rates are shown in Table 7-2. The table also shows the change in each category during 2013.

Unit linked business has been Mandatum Life's main focus area since year 2001. Since that the trend of unit linked technical provisions have been upward and annual average change in technical provisions has been + 26 per cent per annum. Due to the nature of unit linked business, volatility between years is relatively high.

In contrast, the trend of with profit technical provisions is downward, especially portfolios with highest 4.5 per cent and 3.5 per cent guarantees. In total, with profit technical provisions decreased by EUR 143 million including a strengthening of the discount rate reserves by EUR 28 million. Unit-linked technical provisions exceeded with profit technical provisions during year 2013.

The development of the structure and amount of Mandatum Life's technical provisions is shown in Figure 7-3.

Table 7-4 shows the expected maturity and duration of insurance and investment contracts. The sensitivity of technical provisions to changes in discount rates can be assessed on the basis of the durations shown in the table.

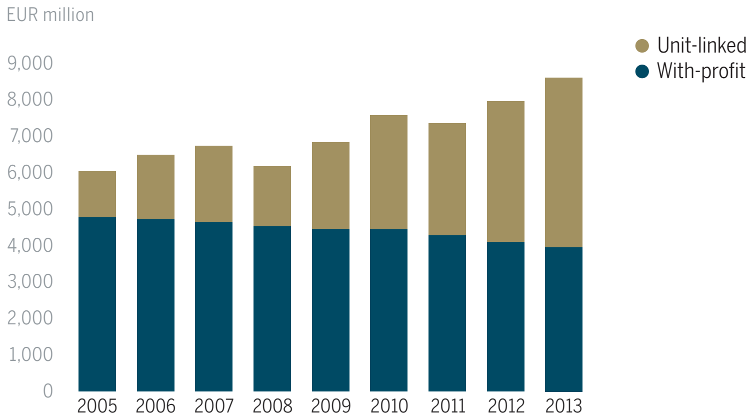
## 7.3 Other insurance risks

The most significant other risks arise from the uncertainty related to the behavior of policyholders. The policyholders have the right to cease paying premiums (lapse risk) and the possibility to interrupt their policies (surrender risk). Being able to keep lapse and surrender rates at a low level are crucial success

**Table 7–2: Analysis of the change in provisions before reinsurance, 2013**

| EUR million | Liability 2012 | Premiums | Claims paid | Expense charges | Guaranteed interest | Bonuses | Other | Liability 2013 | Share % |
|---|---|---|---|---|---|---|---|---|---|
| **MANDATUM LIFE parent company** | | | | | | | | | |
| **Unit-linked total** | **3,699** | **880** | **-323** | **-52** | **0** | **0** | **271** | **4,475** | **52** |
| Individual pension insurance | 894 | 81 | -8 | -13 | 0 | 0 | 60 | 1,014 | 12 |
| Individual life | 1,301 | 311 | -144 | -14 | 0 | 0 | 75 | 1,530 | 18 |
| Capital redemption operations | 1,140 | 430 | -166 | -18 | 0 | 0 | 103 | 1,489 | 17 |
| Group pension | 364 | 57 | -5 | -6 | 0 | 0 | 33 | 442 | 5 |
| **With-profit and others total** | **4,052** | **156** | **-394** | **-36** | **139** | **3** | **-11** | **3,910** | **46** |
| **Group pension** | **2,411** | **64** | **-188** | **-7** | **80** | **3** | **-28** | **2,335** | **27** |
| Guaranteed rate 3.5% | 2,321 | 53 | -181 | -6 | 77 | 2 | -53 | 2,213 | 26 |
| Guaranteed rate 2.5% or 0.0% | 90 | 11 | -6 | -1 | 3 | 0 | 25 | 122 | 1 |
| **Individual pension insurance** | **1,216** | **21** | **-156** | **-6** | **51** | **0** | **16** | **1,141** | **13** |
| Guaranteed rate 4.5% | 1,015 | 14 | -125 | -5 | 44 | 0 | 2 | 945 | 11 |
| Guaranteed rate 3.5% | 157 | 4 | -22 | -1 | 5 | 0 | 9 | 153 | 2 |
| Guaranteed rate 2.5% or 0.0% | 44 | 2 | -9 | 0 | 1 | 0 | 6 | 43 | 1 |
| **Individual life insurance** | **253** | **32** | **-36** | **-10** | **8** | **0** | **-14** | **233** | **3** |
| Guaranteed rate 4.5% | 72 | 5 | -8 | -2 | 3 | 0 | -2 | 68 | 1 |
| Guaranteed rate 3.5% | 121 | 11 | -15 | -4 | 4 | 0 | -7 | 109 | 1 |
| Guaranteed rate 2.5% or 0.0% | 61 | 17 | -13 | -6 | 1 | 0 | -4 | 56 | 1 |
| **Capital redemption operations** | **6** | **0** | **-1** | **0** | **0** | **0** | **-1** | **4** | **0** |
| Guaranteed rate 3.5% | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Guaranteed rate 2.5% or 0.0% | 6 | 0 | -1 | 0 | 0 | 0 | -1 | 4 | 0 |
| **Future bonus reserves** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Reserve for decreased discount rate** | **118** | **0** | **0** | **0** | **0** | **0** | **28** | **146** | **2** |
| **Assumed reinsurance** | **2** | **4** | **-1** | **0** | **0** | **0** | **0** | **6** | **0** |
| **Other liabilities** | **47** | **34** | **-12** | **-12** | **1** | **0** | **-12** | **45** | **1** |
| **MANDATUM LIFE parent company total** | **7,751** | **1,036** | **-716** | **-88** | **139** | **3** | **260** | **8,385** | **98** |
| **Subsidiary MANDATUM LIFE Insurance Baltic SE** | **153** | **32** | **-25** | **-3** | **1** | **0** | **2** | **159** | **2** |
| Unit-linked | 134 | 29 | -22 | -2 | 0 | 0 | 3 | 142 | 2 |
| Others | 19 | 3 | -3 | -1 | 1 | 0 | -1 | 18 | 0 |
| **MANDATUM LIFE GROUP TOTAL** | **7,904** | **1,068** | **-741** | **-91** | **139** | **3** | **262** | **8,544** | **100** |

**Figure 7–3: Development of with-profit and unit-linked technical provisions, 2005-2013**




factors especially for the expense result of unit-linked business. From ALM point of view surrender and lapse risks are less significant because in Mandatum Life, approximately 90 per cent of with-profit policies are pension policies in which surrender is possible only in exceptional cases. For ALM risk, surrender risk is therefore only relevant in individual life and capital redemption policies of which the related technical provisions amounts to only 6 per cent (EUR 237 million) of the total with-profit liabilities. Furthermore, the supplements to technical provisions are not paid out at surrender which also reduces the surrender risk related to the with-profit policies.

**Table 7–4: Expected maturity of insurance and investment contracts before reinsurance, 31 Dec 2013**

| EUR million | Duration | 2014–2015 | 2016–2017 | 2018–2022 | 2023–2027 | 2028–2032 | 2033–2037 | 2038– |
|---|---|---|---|---|---|---|---|---|
| **MANDATUM LIFE parent company** | | | | | | | | |
| **Unit-linked total** | **8.6** | **759** | **688** | **1,254** | **884** | **785** | **357** | **429** |
| Individual pension insurance | 11.4 | 66 | 112 | 257 | 234 | 196 | 143 | 172 |
| Individual life | 7.6 | 327 | 279 | 432 | 286 | 235 | 111 | 106 |
| Capital redemption operations | 7.2 | 336 | 255 | 448 | 264 | 280 | 49 | 74 |
| Group pension | 11.3 | 29 | 42 | 117 | 100 | 74 | 54 | 77 |
| **With-profit and others total** | **8.6** | **870** | **699** | **1,280** | **867** | **589** | **395** | **604** |
| **Group pension** | **10.0** | **383** | **353** | **752** | **576** | **423** | **305** | **477** |
| Guaranteed rate 3.5% | 10.0 | 362 | 338 | 724 | 554 | 406 | 292 | 453 |
| Guaranteed rate 2.5% or 0.0% | 9.9 | 21 | 15 | 28 | 21 | 17 | 13 | 24 |
| **Individual pension insurance** | **6.4** | **302** | **278** | **430** | **230** | **122** | **55** | **57** |
| Guaranteed rate 4.5% | 6.4 | 251 | 230 | 368 | 198 | 101 | 44 | 48 |
| Guaranteed rate 3.5% | 6.4 | 39 | 38 | 50 | 26 | 18 | 9 | 7 |
| Guaranteed rate 2.5% or 0.0% | 5.8 | 12 | 10 | 12 | 6 | 3 | 2 | 2 |
| **Individual life insurance** | **9.9** | **49** | **52** | **73** | **50** | **38** | **32** | **67** |
| Guaranteed rate 4.5% | 10.8 | 16 | 14 | 22 | 16 | 12 | 12 | 28 |
| Guaranteed rate 3.5% | 10.2 | 20 | 22 | 35 | 24 | 19 | 15 | 30 |
| Guaranteed rate 2.5% or 0.0% | 7.8 | 12 | 16 | 17 | 9 | 7 | 5 | 9 |
| **Capital redemption operations** | **6.9** | **1** | **0** | **1** | **1** | **1** | **0** | **0** |
| Guaranteed rate 3.5% | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Guaranteed rate 2.5% or 0.0% | 6.9 | 1 | 0 | 1 | 1 | 1 | 0 | 0 |
| **Future bonus reserves** | **1.0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Reserve for decreased discount rate** | **3.3** | **89** | **13** | **21** | **11** | **5** | **3** | **3** |
| **Assumed reinsurance** | **0.5** | **6** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Other liabilities** | **1.0** | **41** | **3** | **2** | **0** | **0** | **0** | **0** |
| **MANDATUM LIFE parent company total** | **8.6** | **1,629** | **1,386** | **2,534** | **1,751** | **1,374** | **752** | **1,033** |
| **Subsidiary MANDATUM LIFE Insurance Baltic SE** | | **15** | **17** | **38** | **16** | **27** | **9** | **37** |
| Unit-linked | | 12 | 13 | 32 | 14 | 26 | 9 | 37 |
| Others | | 4 | 3 | 7 | 2 | 1 | 0 | 0 |
| **MANDATUM LIFE GROUP TOTAL** | | **1,644** | **1,403** | **2,572** | **1,767** | **1,401** | **761** | **1,070** |

The company is also exposed to expense risk, which is a risk that the future operating expenses exceed the level that was anticipated when pricing the insurances. Policy terms and tariffs cannot usually be changed materially during the lifetime of the policies, which increases the expense risk. The main challenge is to keep the expenses related to insurance administrative processes and complex IT-infrastructure at an efficient level through the contract period of policies. In 2013 Mandatum Life Group's expense result was EUR 15.3 million (6.8). Mandatum Life does not defer insurance acquisition costs.

### 7.4 Insurance risk management and control

Biometric risks of life insurance policies are managed by careful risk selection, by pricing that reflects the risks and costs, by setting upper limits for the protection granted and by reinsurance.

Risk selection is a part of the day-to-day business routines in Mandatum Life. Mandatum Life's Underwriting Policy sets principles for risk selection and limits for insured sums. Compliance with the principles and limits set in the Underwriting Policy is monitored continuously.

Reinsurance is used to limit the amount of individual mortality and disability risks. The Board of Directors annually determines the maximum amount of risk to be retained for the company's own account, which for Mandatum Life is EUR 1.5 million per insured. To mitigate the effects of possible catastrophes, Mandatum Life participates in the catastrophe reinsurance taken jointly by Finnish life insurance companies.

The risk result is actively monitored and analyzed thoroughly annually. Mandatum Life measures the efficiency of risk selection and adequacy of tariffs by collecting information about the actual claims expenditure for each product line and each type of risk, and by comparing it to the claims expenditure assumed in insurance premiums of every risk cover.

Technical provisions are analyzed and the possible supplement needs are assessed regularly. Assumptions related to technical provisions are reviewed annually. Adequacy of technical provisions is tested quarterly. Tariffs for new policies are set, and the underwriting policy and assumptions used in calculating technical provisions are updated based on the analysis related to technical provisions and risk result. Tariffs and prices, as well as the reinsurance principles and reserving principles are reviewed and approved annually by the Board of Directors of Mandatum Life.

## 8. Operational risks

Operational risk refers to the risk of loss resulting from inadequate or failed processes or systems, from personnel and systems or from external events. This definition includes legal risk but excludes risks resulting from strategic decisions. The risks may realize as a consequence of:

- internal misconduct;
- external misconduct;
- insufficient human resources management;
- insufficiencies in operating policies as far as customers, products or business activities are concerned;
- damage to physical property;
- interruption of activities and system failures; and
- defects in the operating process.

Operational risk may materialize as additional expenses, compensations for caused damages, non-compliance with rules and regulations, loss of reputation, false information on risk position and consecutive losses, and interruption of business activities.

### 8.1 Goal of operational risk management and risk governance

The goal of operational risk management in Mandatum Life is to ensure the adequacy, effectiveness and quality of operations, as well as to ensure that all operations are conducted in compliance with laws and regulations. In addition, the goal is to ensure the continuity of operations even in exceptional circumstances.

Business units are responsible for the identification, assessment, monitoring and management of their own operational risks. Operational Risk Committee (ORC) monitors and coordinates central issues regarding operational risks, such as policies and recommendations. The Committee ensures that risks are identified and business units have organized internal control and risk management in a proper way. The Committee also analyses deviations from operational risk management policies and monitors operational risks identified in the self-assessments as well as the occurred incidents. The committee meets at least three times a year. Significant observations on operational risks are submitted to the Risk Management Committee and Board of Directors on a quarterly basis.

### 8.2 Operational risk identification and management

Operational risks are identified through several different sources and methods:

- *Macro analysis* is conducted prior to the annual strategy process where the key trends in Mandatum Life's business environment are identified, including a macro level business analysis of operational risks. External events are monitored continuously and the company reacts to those as soon as possible.
- *Self-assessment* process is used to map and evaluate the major operational risks and their probabilities and significance, including an evaluation of internal controls and sufficiency of instructions. Self-assessment is conducted annually.
- *Analysis of incidents*. Realized operational risks and near misses reported by the business units are collected and analyzed by ORC. Each business unit is responsible for reporting the occurred incidents and near misses to the ORC.
- *Internal audits.*

The most significant operational risks for Mandatum Life identified in the operational risk self-assessment process include, among others, the following: changes in the external operating environment, IT, especially aging IT systems, manual phases in processes, loss of key personnel, miss-selling and false information to customers.

In order to limit operational risks, Mandatum Life has approved a number of policies including e.g. Security Policies, Continuity Plans, Acquisition and Outsourcing Policy, Complaints Handling Policy and a number of other policies related to ongoing operative activities. Deviations against different policies are followed up independently in each business unit and reported to ORC.

Internal control system in processes aims at preventing and identifying negative incidents and minimizing their impact. In addition, would there be an operational risk event or near misses, this must be analyzed and reported to ORC.

## 9. Risk management outlook

Mandatum Life continuously develope its risk management and risk management processes. This work is based on internal needs and regulatory requirements of which the future Solvency II is the most important. The Solvency II regulation is confirmed to enter into force on 1 January 2016. In the near future, the risk management outlook will concentrate on developing the company´s preparedness of the Solvency II regulation, and especially on assessing whether there are effects on the company´s willingness to take risk. There might be effects if the Solvency II capital requirement exceeds the company´s own view of the requirement of a certain risk. Solvency II requirements contain transition periods concerning determination of capital requirements of equity risk and with profit technical provisions.

# Notes to the Income Statement

## 1 INSURANCE PREMIUMS

### 1.1. PREMIUMS FROM INSURANCE CONTRACTS

| EUR million | 2013 | 2012 |
|---|---|---|
| **Insurance contracts** | | |
| Insurance contracts | 624.1 | 591.2 |
| Reinsurance contracts | 4.4 | 2.0 |
| **Insurance contracts total, gross** | **628.5** | **593.2** |
| Reinsurers´ share | -5.0 | -5.2 |
| **Insurance contracts total, net** | **623.5** | **588.0** |
| **Investment contracts** | 439.6 | 389.4 |
| **Total premiums [1]** | **1,063.1** | **977.4** |

[1]) The change in unearned premiums is presented in note 4 " The change in insurance and investment liabilities".

### 1.2. SPECIFICATION OF PREMIUMS

| EUR million | 2013 | 2012 |
|---|---|---|
| **Premiums from insurance contracts** | | |
| Premiums from contracts with discretionary participation feature | 153.4 | 168.4 |
| Premiums from unit-linked contracts | 469.2 | 421.4 |
| Premiums from other contracts | 1.4 | 1.3 |
| **Total** | **624.1** | **591.2** |
| | | |
| Reinsurance contracts | 4.4 | 2.0 |
| | | |
| **Premiums from investment contracts** | | |
| Premiums from contracts with discretionary participation feature | 0.1 | 0.3 |
| Premiums from unit-linked contracts | 439.5 | 389.1 |
| **Total** | **439.6** | **389.4** |
| | | |
| **Insurance and investment contracts, total** | **1,068.1** | **982.6** |
| | | |
| Reinsurers' share | -5.0 | -5.2 |
| | | |
| **Total premiums** | **1,063.1** | **977.4** |

### 1.3. DIRECT INSURANCE PREMIUMS BY GEOGRAPHICAL SEGMENTS

| EUR million | 2013 | 2012 |
|---|---|---|
| Finland | 1,031.7 | 947.2 |
| Baltic countries | 32.0 | 33.4 |
| **Total** | **1,063.7** | **980.6** |

### 1.4. SINGLE AND REGULAR PREMIUMS FROM DIRECT INSURANCE

| EUR million | 2013 | 2012 |
|---|---|---|
| Regular premiums, insurance contracts | 291.0 | 320.1 |
| Single premiums, insurance contracts | 333.2 | 271.0 |
| Single premiums, investment contracts | 439.6 | 389.4 |
| **Total** | **1,063.7** | **980.6** |

### 1.5. DIRECT INSURANCE PREMIUMS BY LINE OF BUSINESS

| EUR million | 2013 | 2012 |
|---|---|---|
| **Premiums from insurance contracts** | | |
| Life insurance | | |
| Unit-linked individual life insurance | 330.9 | 266.3 |
| Other individual life insurance | 50.0 | 50.4 |
| Employees´ group life insurance | 12.1 | 14.0 |
| Other group life insurance | 7.7 | 6.0 |
| | **400.9** | **336.6** |
| Pension insurance | | |
| Unit-linked individual pension insurance | 81.3 | 86.7 |
| Other individual pension insurance | 20.9 | 23.3 |
| Unit-linked group pension insurance | 57.0 | 68.4 |
| Other group pension insurance | 64.1 | 76.1 |
| | **223.3** | **254.5** |
| | | |
| **Total** | **624.1** | **591.2** |
| | | |
| **Premiums from investment contracts** | | |
| Capital redemption operations | | |
| Unit-linked capital redemption operations | 439.5 | 389.1 |
| Other capital redemption operations | 0.1 | 0.3 |
| **Total** | **439.6** | **389.4** |
| | | |
| **Total premiums from insurance and investment contracts** | **1,063.7** | **980.6** |

## 2 NET INCOME FROM INVESTMENTS

| EUR million | 2013 | 2012 |
|---|---|---|
| **Financial assets** | | |
| **Derivative financial instruments** | | |
| Gains/losses | 6.3 | 41.5 |
| | | |
| **Financial assets designated as at fair value through p/l** | | |
| Debt securities | | |
| Interest income | 1.1 | 3.4 |
| Gains/losses | 0.4 | -1.0 |
| Equity securities | | |
| Gains/losses | 0.3 | 0.2 |
| Dividend income | 0.0 | 0.0 |
| **Total** | **1.8** | **2.6** |
| | | |
| **Investments related to unit-linked contracts** | | |
| Debt securities | | |
| Interest income | 45.7 | 34.1 |
| Gains/losses | -26.6 | 37.3 |
| Equity securities | | |
| Gains/losses | 210.0 | 237.1 |
| Dividend income | 12.8 | 11.1 |
| Loans and receivables | | |
| Interest income | -0.5 | 0.7 |
| Other financial assets | | |
| Gains/losses | 28.9 | -26.0 |
| **Total** | **270.1** | **294.3** |
| | | |
| **Loans and receivables** | | |
| Interest income | 0.7 | 0.7 |
| Gains/losses | -5.0 | 0.5 |
| **Total** | **-4.3** | **1.2** |
| | | |
| **Financial assets available-for-sale** | | |
| Debt securities | | |
| Interest income | 114.8 | 144.0 |
| Gains/losses | 1.6 | 13.2 |
| Equity securities | | |
| Gains/losses | 111.3 | 36.9 |
| Impairment losses | -33.1 | -37.3 |
| Dividend income | 87.1 | 66.9 |
| **Total** | **281.7** | **223.7** |
| | | |
| **Total financial assets** | **555.7** | **563.4** |
| | | |
| **Other assets** | | |
| Investment properties | | |
| Gains/losses | 0.6 | -0.2 |
| Impairment losses | 0.0 | -1.6 |
| Other | 1.9 | 4.2 |
| | | |
| **Total other assets** | **2.5** | **2.5** |

| EUR million | **2013** | 2012 |
|---|---|---|
| **Net fee income** | | |
| Asset management | -13.5 | -13.4 |
| Fee income | 24.6 | 22.0 |
| **Total** | **11.1** | **8.6** |
| | | |
| **Total** | **569.4** | **574.5** |

Included in gains/losses from financial assets available-for-sale is a net gain of EURm 69.9 (2.5) transferred from the fair value reserve.

Other income and expenses comprise rental income, maintenance expenses and depreciation of investment property.

All the income and expenses arising from investments are included in Net income from investments. Gains/losses include realised gains/losses on sales, unrealised and realised changes in fair values and exchange differences. Unrealised fair value changes for financial assets available-for-sale are recorded in other comprehensive income and presented in the fair value reserve in equity.

The changes in the fair value reserve are disclosed in the Statement of changes in equity on p. 12.

## 3 CLAIMS INCURRED

All claims included

| | Claims paid | | Change in provision for claims outstanding | | Claims incurred | |
|---|---|---|---|---|---|---|
| EUR million | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| **Insurance contracts** | | | | | | |
| **Life insurance** | | | | | | |
| Contracts with discretionary participation feature (DPF) | -50.1 | -77.2 | -0.2 | -3.0 | -50.3 | -80.2 |
| Other contracts | -0.4 | -0.2 | 0.0 | -0.5 | -0.4 | -0.7 |
| Unit-linked contracts | -160.3 | -155.3 | 0.4 | 3.5 | -159.9 | -151.8 |
| **Total** | **-210.7** | **-232.7** | **0.2** | **0.0** | **-210.5** | **-232.7** |
| | | | | | | |
| **Pension insurance** | | | | | | |
| Contracts with discretionary participation feature (DPF) | -344.2 | -346.4 | 24.0 | 50.6 | -320.1 | -295.8 |
| Unit-linked contracts | -12.5 | -10.1 | -16.4 | -9.5 | -28.9 | -19.7 |
| **Total** | **-356.7** | **-356.5** | **7.7** | **41.1** | **-349.0** | **-315.5** |
| | | | | | | |
| **Assumed reinsurance** | -1.1 | -1.0 | -0.5 | 0.1 | -1.6 | -1.0 |
| | | | | | | |
| **Insurance contracts total, gross** | **-568.4** | **-590.3** | **7.3** | **41.1** | **-561.1** | **-549.2** |
| | | | | | | |
| Reinsurers´ share | 3.1 | 3.9 | -0.7 | 0.2 | 2.4 | 4.1 |
| | | | | | | |
| **Insurance contracts total, net** | **-565.3** | **-586.4** | **6.7** | **41.3** | **-558.7** | **-545.1** |
| | | | | | | |
| **Investment contracts** | | | | | | |
| **Capital redemption policies** | | | | | | |
| Contracts with discretionary participation feature (DPF) | -0.7 | -0.6 | - | - | -0.7 | -0.6 |
| Unit-linked contracts | -171.9 | -123.3 | - | - | -171.9 | -123.3 |
| **Investment contracts, total** | **-172.6** | **-123.9** | **-** | **-** | **-172.6** | **-123.9** |
| | | | | | | |
| **Life insurance, total** | **-737.9** | **-710.3** | **6.7** | **41.3** | **-731.3** | **-669.0** |

## CLAIMS PAID BY TYPE OF BENEFIT

| EUR million | 2013 | 2012 |
|---|---|---|
| **Insurance contracts** | | |
| **Life insurance** | | |
| Surrender benefits | -10.0 | -8.5 |
| Death benefits | -21.1 | -25.7 |
| Maturity benefits | -9.4 | -33.7 |
| Loss adjustment expenses | 0.0 | 0.0 |
| Other | -9.9 | -9.5 |
| **Total** | **-50.4** | **-77.4** |
| | | |
| **Life insurance, unit-linked** | | |
| Surrender benefits | -115.0 | -89.0 |
| Death benefits | -33.5 | -26.7 |
| Maturity benefits | -11.8 | -39.6 |
| Loss adjustment expenses | 0.0 | 0.0 |
| **Total** | **-160.3** | **-155.3** |
| | | |
| **Pension insurance** | | |
| Pension payments | -319.0 | -319.9 |
| Surrender benefits | -20.0 | -19.4 |
| Death benefits | -5.2 | -7.1 |
| Loss adjustment expenses | 0.0 | 0.0 |
| **Total** | **-344.2** | **-346.4** |
| | | |
| **Pension insurance, unit-linked** | | |
| Pension payments | - | - |
| Surrender benefits | -8.7 | -8.1 |
| Death benefits | -3.8 | -2.0 |
| Other | 0.0 | 0.0 |
| **Total** | **-12.5** | **-10.1** |
| | | |
| Assumed reinsurance | -1.2 | -1.1 |
| | | |
| **Insurance contracts total, gross** | **-568.5** | **-590.3** |
| | | |
| Reinsurers´ share | 3.2 | 4.0 |
| | | |
| **Insurance contracts total, net** | **-565.3** | **-586.4** |
| | | |
| **Investment contracts** | | |
| **Capital redemption policy, with-profit** | | |
| Surrender benefits | -0.4 | -0.4 |
| Loss adjustment expenses | -0.3 | -0.2 |
| **Total** | **-0.7** | **-0.6** |
| | | |
| **Investment contracts** | | |
| **Capital redemption policy, unit-linked** | | |
| Surrender benefits | -169.6 | -123.0 |
| Loss adjustment expenses | -2.3 | -0.3 |
| **Total** | **-171.9** | **-123.3** |
| | | |
| **Investment contracts total, gross** | **-172.6** | **-123.9** |
| | | |
| **Claims paid total, gross** | -741.1 | -714.3 |
| **Claims paid total, net** | -737.9 | -710.3 |

## 4 CHANGE IN LIABILITIES FOR INSURANCE AND INVESTMENT CONTRACTS

| EUR million | 2013 | 2012 |
|---|---|---|
| **Insurance contracts** | | |
| **Life insurance** | | |
| Contracts with discretionary participation feature (DPF) | 18.6 | 46.7 |
| Other contracts | 0.0 | 0.1 |
| Unit-linked contracts | -231.6 | -213.9 |
| **Total** | **-213.0** | **-167.1** |
| | | |
| **Pension insurance** | | |
| Contracts with discretionary participation feature (DPF) | 102 | 82.9 |
| Unit-linked contracts | -183 | -228.7 |
| **Total** | **-80.1** | **-145.7** |
| | | |
| Assumed reinsurance | -3.0 | 0.0 |
| | | |
| **Insurance contracts total, gross** | **-296.1** | **-312.8** |
| | | |
| Reinsurers´ share | 0.0 | 0.0 |
| | | |
| **Insurance contracts total, net** | **-296.1** | **-312.8** |
| | | |
| **Investment contracts** | | |
| **Capital redemption policy** | | |
| Contracts with discretionary participation feature (DPF) | 1.8 | 0.9 |
| Unit-linked contracts | -353.5 | -330.2 |
| **Investment contracts, total** | **-351.6** | **-329.3** |
| | | |
| **Change in liabilities for insurance and investment contracts in total, gross** | **-647.7** | **-642.1** |

## 5 STAFF COSTS

| EUR million | 2013 | 2012 |
|---|---|---|
| **Staff costs** | | |
| Wages and salaries | -32.9 | -31.4 |
| Cash-settled share-based payments | -5.4 | -3.4 |
| Pension costs - defined contribution plans | -5.0 | -5.1 |
| Other social security costs | -2.7 | -2.5 |
| **Total** | **-46.0** | **-42.4** |

More information on share-based payments in note 32 Incentive schemes.

## 6 OTHER OPERATING EXPENSES

| EUR million | **2013** | 2012 |
|---|---|---|
| IT costs | -12.3 | -14.1 |
| Other staff costs | -1.5 | -1.7 |
| Marketing expenses | -3.0 | -3.8 |
| Depreciation and amortisation | -3.2 | -3.9 |
| Rental expenses | -2.7 | -3.1 |
| Direct insurance comissions | -10.3 | -8.0 |
| Comissions on reinsurance assumed | 0.1 | -0.7 |
| Commissions on reinsurance ceded | 1.8 | 1.3 |
| Other | -22.6 | -24.4 |
| **Total** | **-53.9** | **-58.4** |

Item Other includes e.g. expenses related to communication, external services and other administrative expenses.

## OPERATING EXPENSES BY ACTIVITY

| EUR million | **2013** | 2012 |
|---|---|---|
| Policy acquisition costs for insurance and investment contracts | | |
| Direct insurance commissions | -10.3 | -8.0 |
| Commission on reinsurance assumed | 0.1 | -0.7 |
| Other acquisition costs | -26.6 | -30.3 |
| Policy management expenses on insurance and investment contracts | -39.2 | -38.4 |
| Administrative expenses | -17.5 | -15.8 |
| Commission on reinsurance ceded | 1.8 | 1.3 |
| Investment management expenses | -1.1 | -1.0 |
| Claims settlement expenses | -2.6 | -3.9 |
| Other expenses | -4.3 | -4.0 |
| | | |
| **Total** | **-99.9** | **-100.8** |

## 7 FINANCIAL ASSETS AND LIABILITIES

The financial assets in the table include balance sheet items Financial assets excluding  Investments related to unit-linked contracts.

Financial assets and liabilities have been categorised in accordance with IAS 39.9. In the table are also included interest income and expenses, realised and unrealised gains and losses recognised in P/L, impairment losses and dividend income arising from those assets and liabilities.

Accrued interest income and expenses are not included in financial assets or financial liabilities.  Accrued interest income was 36.0 EURm (45.2) and accrued interest expenses 7.1 EURm (9.4).

### FINANCIAL ASSETS

| | | | **2013** | | |
|---|---|---|---|---|---|
| EUR million | Carrying amount | Interest inc./exp. | Gains/losses | Impairment losses | Dividend income |
| **Financial assets at fair value through p/l** | | | | | |
| Derivative financial instruments | 32.8 | 2.8 | 3.6 | | |
| Financial assets designated as at fair value through p/l | 47.8 | 1.1 | 0.7 | | 0.0 |
| | | | | | |
| **Loans and receivables** | 18.8 | 0.7 | -5.0 | | |
| | | | | | |
| **Financial assets available-for-sale** | 5,022.9 | 114.8 | 112.9 | -33.1 | 87.1 |
| | | | | | |
| **Financial assets total** | **5,122.3** | **119.4** | **112.2** | **-33.1** | **87.1** |

**FINANCIAL LIABILITIES**

| | | | **2013** | | |
|---|---|---|---|---|---|
| EUR million | Carrying amount | Interest inc./exp. | Gains/losses | Impairment losses | Dividend income |
| **Financial liabilities at fair value through p/l** | | | | | |
| Derivative financial instruments | 10.8 | | | | |
| | | | | | |
| **Other financial liabilities** | 100.0 | -6.6 | | | |
| | | | | | |
| **Financial liabilities total** | **110.8** | **-6.6** | | | |

FINANCIAL ASSETS

| | | | 2012 | | |
|---|---|---|---|---|---|
| EUR million | Carrying amount | Interest inc./exp. | Gains/losses | Impairment losses | Dividend income |
| **Financial assets at fair value through p/l** | | | | | |
| Derivative financial instruments | 60.3 | 1.2 | 40.4 | | |
| Financial assets designated as at fair value through p/l | 47.9 | 3.4 | -0.8 | | 0.0 |
| | | | | | |
| **Loans and receivables** | 22.8 | 0.7 | 0.5 | | |
| | | | | | |
| **Financial assets available-for-sale** | 5,138.2 | 144.0 | 50.1 | -37.3 | 66.9 |
| | | | | | |
| **Financial assets total** | **5,269.2** | **149.3** | **90.2** | **-37.3** | **66.9** |

FINANCIAL LIABILITIES

| | | | 2012 | | |
|---|---|---|---|---|---|
| EUR million | Carrying amount | Interest inc./exp. | Gains/losses | Impairment losses | Dividend income |
| **Financial liabilities at fair value through p/l** | | | | | |
| Derivative financial instruments | 5.1 | | | | |
| | | | | | |
| **Other financial liabilities** | 100.0 | -7.2 | | | |
| | | | | | |
| **Financial liabilities total** | **105.1** | **-7.2** | | | |

# Notes to the Balance Sheet

## 8 PROPERTY, PLANT AND EQUIPMENT

| EUR million | 2013 Land and buildings | 2013 Equipment | 2013 Total | 2012 Land and buildings | 2012 Equipment | 2012 Total |
|---|---|---|---|---|---|---|
| **At 1 Jan.** | | | | | | |
| Cost | 4.3 | 7.5 | 11.8 | 4.3 | 7.3 | 11.6 |
| Accumulated depreciation | -0.6 | -5.8 | -6.4 | -0.5 | -5.4 | -5.9 |
| **Net carrying amount** | **3.7** | **1.7** | **5.4** | **3.8** | **1.9** | **5.7** |
| | | | | | | |
| Opening net carrying amount | 3.7 | 1.7 | 5.4 | 3.8 | 1.9 | 5.7 |
| Additions | 0.0 | 0.1 | 0.1 | | 0.3 | 0.3 |
| Depreciation | 0.0 | -0.3 | -0.3 | -0.1 | -0.4 | -0.5 |
| **Closing net carrying amount** | **3.7** | **1.4** | **5.1** | **3.7** | **1.7** | **5.4** |
| | | | | | | |
| **At 31 Dec.** | | | | | | |
| Cost | 4.3 | 7.6 | 11.9 | 4.3 | 7.5 | 11.8 |
| Accumulated depreciation | -0.6 | -6.2 | -6.7 | -0.6 | -5.8 | -6.4 |
| **Net carrying amount** | **3.7** | **1.4** | **5.1** | **3.7** | **1.7** | **5.4** |

Equipment comprise IT equipment and furniture.

## 9 INVESTMENT PROPERTY

| EUR million | **2013** | 2012 |
|---|---|---|
| **At 1 Jan.** | | |
| Cost | 155.0 | 146.7 |
| Accumulated depreciation | -44.1 | -41.2 |
| Accumulated impairment losses | -17.5 | -15.9 |
| **Net carrying amount** | **93.4** | **89.6** |
| | | |
| **Opening net carrying amount** | 93.4 | 89.6 |
| Additions | 17.2 | 8.3 |
| Disposals | -1.9 | 0.0 |
| Depreciation | -2.9 | -2.9 |
| Impairment losses | -0.7 | -1.6 |
| **Closing net carrying amount** | **105.2** | **93.4** |
| | | |
| **At 31 Dec.** | | |
| Cost | 170.3 | 155.0 |
| Accumulated depreciation | -47.0 | -44.1 |
| Accumulated impairment losses | -18.1 | -17.5 |
| **Net carrying amount** | **105.2** | **93.4** |
| | | |
| **Rental income from investment property** | 13.4 | 15.4 |
| | | |
| **Property rented out under operating lease** | | |
| **Non-cancellable minimum rental** | | |
| not later than one year | 6.1 | 5.8 |
| later than one year and not later than five years | 13.6 | 10.8 |
| later than five years | 2.0 | 3.4 |
| **Total** | **21.6** | **20.0** |
| | | |
| Variable rents recognised as income during the financial period | 0.1 | 0.1 |

| EUR million | 2013 | 2012 |
|---|---|---|
| **Expenses arising from investment property** | | |
| Direct operating expenses arising from investment property generating rental income during the period | -6.9 | -7.5 |
| Direct operating expenses arising from investment property not generating rental income during the period | -1.8 | -0.8 |
| **Total** | **-8.7** | **-8.3** |
| | | |
| **Fair value of investment property at 31 Dec.** | **125.3** | **111.6** |

Fair values for the investment property are entirely determined by the Group based on the market evidence.

The premises in investment property for different segments are leased on market-based, irrevocable contracts. The lengths of the contracts vary from those for the time being to those for several years.

## 10 INTANGIBLE ASSETS

| EUR million | 2013 | 2012 |
|---|---|---|
| **At 1 Jan.** | | |
| Cost | 42.4 | 39.9 |
| Accumulated amortisation | -31.3 | -27.9 |
| **Net carrying amount** | **11.0** | **12.0** |
| | | |
| Opening net carrying amount | 11.0 | 12.0 |
| Additions | 0.6 | 2.4 |
| Amortisation | -3.1 | -3.4 |
| **Closing net carrying amount** | **8.5** | **11.0** |
| | | |
| **At 31 Dec.** | | |
| Cost | 42.9 | 42.4 |
| Accumulated amortisation | -34.4 | -31.3 |
| **Net carrying amount** | **8.5** | **11.0** |

Intangible assets comprise mainly IT software.

Depreciation and impairment losses are included in the income statement item Other operating expenses.

## 11 INVESTMENTS IN ASSOCIATES

### ASSOCIATES THAT HAVE BEEN ACCOUNTED FOR BY THE EQUITY METHOD AT 31 DEC. 2013

| EUR million | Carrying amount | Fair value*) | Interest held % | Assets/ liabilities | Revenue | Profit/loss |
|---|---|---|---|---|---|---|
| Niittymaa Oy * | 0.0 | 0.0 | 49.0 | 3.9/1.2 | 0.0 | 2.7 |
| SaKa Hallikiinteistöt Oy | 0.0 | 0.0 | 48.0 | 136.9/136.7 | 11.6 | 0.2 |

* Reporting period July/2013-Dec./2013

### ASSOCIATES THAT HAVE BEEN ACCOUNTED FOR BY THE EQUITY METHOD AT 31 DEC. 2012

| EUR million | Carrying amount | Fair value*) | Interest held % | Assets/ liabilities | Revenue | Profit/loss |
|---|---|---|---|---|---|---|
| Niittymaa Oy* | 0.0 | 0.0 | 49.0 | 10.0/10.1 | 0.0 | -0.3 |
| SaKa Hallikiinteistöt Oy | 0.0 | 0.0 | 48.0 | 126.7/126.6 | 11.6 | 0.0 |

* Reporting period July/2012-Dec./2012

CHANGES IN INVESTMENTS IN ASSOCIATES

| EUR million | **2013** | 2012 |
|---|---|---|
| At beginning of the year | 0.0 | 0.0 |
| Share of loss/profit | 1.4 | 0.0 |
| **At end of the year** | **1.4** | **0.0** |

## 12 FINANCIAL ASSETS

Group's financial assets comprise investments in derivatives, financial assets designated as at fair value through p/l, loans and receivables and available-for-sale financial assets.

The Group uses derivative instruments for trading and for hedging purposes. The derivatives used are foreign exchange, interest rate and equity derivatives. Both fair value and cash flow hedging have been applied.

| EUR million | **2013** | 2012 |
|---|---|---|
| Derivative financial instruments | 32.8 | 60.3 |
| Financial assets designated as at fair value through p/l | 47.8 | 47.9 |
| Loans and receivables | 18.8 | 22.8 |
| Financial assets available-for-sale | 5,022.9 | 5,138.2 |
| **Total** | **5,122.3** | **5,269.2** |

### DERIVATIVE FINANCIAL INSTRUMENTS

| | **2013** | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Contract/ notional amount | Fair value Assets | Fair value Liabilities | Contract/ notional amount | Fair value Assets | Fair value Liabilities |
| **Derivatives held for trading** | | | | | | |
| **Interest rate derivatives** | | | | | | |
| OTC derivatives | | | | | | |
| Interest rate swaps | 5,978.0 | 24.8 | 7.4 | 778.0 | 19.4 | 1.6 |
| Credit risk swaps | 507.6 | 0.0 | 2.2 | 530.5 | 0.0 | 1.5 |
| **Total interest rate derivatives** | **6,485.6** | **24.8** | **9.6** | **1,308.5** | **19.4** | **3.1** |
| | | | | | | |
| **Foreign exchange derivatives** | | | | | | |
| OTC derivatives | | | | | | |
| Currency forwards | 955.0 | 6.9 | 1.1 | 1,149.0 | 16.7 | 1.6 |
| Currency options, bought and sold | 0.0 | 0.0 | 0.0 | 98.8 | 0.8 | 0.4 |
| **Total foreign exchange derivatives** | **955.0** | **6.9** | **1.1** | **1,247.8** | **17.4** | **2.0** |
| | | | | | | |
| **Equity derivatives** | | | | | | |
| OTC derivatives | | | | | | |
| Equity and equity index options | 0.8 | 0.0 | 0.0 | | | |
| | | | | | | |
| **Total derivatives held for trading** | **7,441.3** | **31.7** | **10.8** | **2,556.4** | **36.9** | **5.1** |

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Contract/ | Fair value | | Contract/ | Fair value | |
| | notional amount | Assets | Liabilities | notional amount | Assets | Liabilities |
| **Derivatives held for hedging** | | | | | | |
| **Fair value hedges** | | | | | | |
| Currency forwards | 501.5 | 1.1 | 0.0 | 575.3 | 23.1 | 0.0 |
| Interest rate swaps | 0.0 | 0.0 | 0.0 | | | |
| **Total** | **501.5** | **1.1** | **0.0** | **575.3** | **23.1** | **0.0** |
| | | | | | | |
| **Cash flow hedges** | | | | | | |
| Interest rate swaps | 0.0 | - | - | 9.0 | 0.3 | - |
| | | | | | | |
| **Total derivatives held for hedging** | **501.5** | **1.1** | **0.0** | **584.3** | **23.4** | **0.0** |
| | | | | | | |
| **Total derivatives** | **7,942.8** | **32.8** | **10.8** | **3,140.7** | **60.3** | **5.1** |

**Fair value hedges**
Fair value hedging is used to hedge a proportion of foreign exchange in available-for-sale financial assets. The interest elements of forward contracts have been excluded from hedging relationships in foreign exchange hedges.

Net gains from exchange derivatives designated as fair value hedges amounted to EURm 18 (12). Net losses from hedged risks in fair value hedges of available for sale financial assets amounted to EURm -18 (-11).

**Cash flow hedges**
Cash flow hedges for future interest payments terminated during the year.

## OTHER FINANCIAL ASSETS

| EUR million | 2013 | 2012 |
|---|---|---|
| **Financial assets designated as at fair value through p/l** | | |
| **Debt securities** | | |
| Issued by public bodies | 10.8 | 12.0 |
| Certificates of deposit issued by banks | 35.4 | 34.7 |
| Other debt securities | - | - |
| **Total debt securities** | **46.2** | **46.7** |
| | | |
| **Equity securities** | | |
| Listed | 1.6 | 1.2 |
| Unlisted | - | - |
| **Total** | **1.6** | **1.2** |
| | | |
| **Total financial assets designated as at fair value through p/l** | **47.8** | **47.9** |
| | | |
| **Loans and receivables** | | |
| Deposits with ceding undertakings | 0.6 | 0.7 |
| Loans | 18.2 | 22.1 |
| **Total loans and receivables** | **18.8** | **22.8** |
| | | |
| **Financial assets available-for-sale** | | |
| **Debt securities** | | |
| Issued by public bodies | 726.5 | 11.6 |
| Issued by banks | 632.3 | 1,066.2 |
| Other debt securities | 1,548.2 | 1,707.8 |
| **Total debt securities** | **2,907.0** | **2,785.6** |
| | | |
| **Equity securities** | | |
| Listed | 1,379.3 | 1,560.5 |
| Unlisted | 736.6 | 792.1 |
| **Total** | **2,115.9** | **2,352.6** |
| | | |
| **Total financial assets available-for-sale** | **5,022.9** | **5,138.2** |
| | | |
| **Life insurance, total financial assets** | **5,122.3** | **5,269.2** |

Financial assets available-for-sale for life insurance include impairment losses EURm 33 (-29).

Financial assets available for sale / debt securities: Debt securities available for sale include EURm 2,553 (2,381) investments in bonds and EURm 354 (405) investments in money market instruments.

Financial assets available for sale /shares and participations: Listed equity securities include EURm 641 (589) quoted shares. Unlisted equity securities include EURm 640 (752) investments in capital trusts.

## 13 FAIR VALUES

| EUR million | 2013 Fair value | 2013 Carrying amount | 2012 Fair value | 2012 Carrying amount |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets | 5,122.3 | 5,122.3 | 5,269.2 | 5,269.2 |
| Investments related to unit-linked contracts | 4,622.9 | 4,622.9 | 3,833.8 | 3,833.8 |
| Other assets | 7.8 | 7.8 | 5.9 | 5.9 |
| Cash and cash equivalents | 222.1 | 222.1 | 153.9 | 153.9 |
| **Total** | **9,975.1** | **9,975.1** | **9,262.9** | **9,262.9** |
| | | | | |
| **Financial liablities** | | | | |
| Financial liabilities | 110.8 | 110.8 | 105.2 | 105.1 |
| Other liabilities | 25.8 | 25.8 | 3.8 | 3.8 |
| **Total** | **136.6** | **136.6** | **109.0** | **109.0** |

In the table above are presented fair values and carrying amounts of financial assets and liabilities. The detailed measurement bases of financial assets and liabilities are disclosed in Group Accounting policies.

The fair value of investment securities is assessed using quoted prices in active markets. If published price quotations are not available, the fair value is assessed using discounting method. Values for the discount rates are taken from the market's yield curve.

The fair value of the derivative instruments is assessed using quoted market prices in active markets, discounting method or option pricing models.

The fair value of loans and other financial instruments which have no quoted price in active markets is based on discounted cash flows, using quoted market rates. The market's yield curve is adjusted by other components of the instrument, e.g. by credit risk.

The fair value for short-term non-interest-bearing receivables and payables is their carrying amount.

Disclosed fair values are "clean" fair values, i.e. less interest accruals.

## 14 DETERMINATION AND HIERARCHY OF FAIR VALUES

A large majority of Mandatum Life Group's financial assets are valued at fair value. The valuation is based on either published price quatations or valuation techniques based on market observable inputs, where available. For a limited amount of assets the value needs to be determined using other techniques.

The financial instruments measured at fair value have been classified into three hierarchy levels in the notes, depending on e.g. if the market for the instrument is active, or if the inputs used in the valuation technique are observable.

On level 1, the measurement of the instrument is based on quoted prices in active markets for identical assets or liabilities.

On level 2, inputs for the measurement of the instrument include also other than quoted prices observable for the asset or liability, either directly or indirectly by using valuation techniques.

On level 3, the measurement is based on other inputs rather than observable market data.

### FINANCIAL ASSETS 31.12.2013

| EUR million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Derivative financial instruments** | | | | |
| Interest rate swaps | - | 24.8 | - | 24.8 |
| Foreign exchange derivatives | - | 8.0 | - | 8.0 |
| Equity derivatives | - | - | - | 0.0 |
| | **0.0** | **32.8** | **0.0** | **32.8** |
| **Financial assets designated at fair value through profit or loss** | | | | |
| Equity securities | 1.6 | - | - | 1.6 |
| Debt securities | - | 46.2 | - | 46.2 |
| | **1.6** | **46.2** | **0.0** | **47.8** |
| **Financial assets related to unit-linked insurance** | | | | |
| Equity securities | 323.8 | 2.0 | 13.5 | 339.3 |
| Debt securities | 14.0 | 1,068.7 | 18.8 | 1,101.5 |
| Mutual funds | 2,097.8 | 810.5 | 64.4 | 2,972.7 |
| Derivative financial instruments | 0.0 | 26.3 | - | 26.3 |
| | **2,435.6** | **1,907.5** | **96.7** | **4,439.8** |
| **Financial assets available-for-sale** | | | | |
| Equity securities | 640.9 | - | 40.0 | 680.9 |
| Debt securities | 726.5 | 2,143.3 | 37.2 | 2,907.0 |
| Mutual funds | 657.7 | 117.2 | 660.2 | 1,435.0 |
| | **2,025.1** | **2,260.5** | **737.4** | **5,022.9** |
| **Total financial assests measured at fair value** | **4,462.3** | **4,247.0** | **834.1** | **9,543.3** |

### FINANCIAL LIABILITIES 31.12.2013

| EUR million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Derivative financial instruments** | | | | |
| Interest rate swaps | - | -7.4 | - | -7.4 |
| Other interest rate derivatives | - | -2.2 | - | -2.2 |
| Foreign exchange derivatives | - | -1.1 | - | -1.1 |
| Equity derivatives | - | 0.0 | - | 0.0 |
| **Total financial liabilities measured at fair value** | **0.0** | **-10.8** | **-** | **-10.8** |

FINANCIAL ASSETS 31.12.2012

| EUR million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Derivative financial instruments** | | | | |
| Interest rate swaps | - | 19.7 | - | 19.7 |
| Foreign exchange derivatives | - | 40.5 | - | 40.5 |
| Equity derivatives | - | - | - | 0.0 |
| | **0.0** | **60.3** | **0.0** | **60.3** |
| | | | | |
| **Financial assets designated at fair value through profit or loss** | | | | |
| Equity securities | 1.2 | - | - | 1.2 |
| Debt securities | - | 46.7 | - | 46.7 |
| | **1.2** | **46.7** | **0.0** | **47.9** |
| | | | | |
| **Financial assets related to unit-linked insurance** | | | | |
| Equity securities | 239.1 | 67.5 | 13.9 | 320.5 |
| Debt securities | - | 808.3 | 17.3 | 825.7 |
| Mutual funds | 1,820.8 | 519.7 | 49.7 | 2,390.2 |
| Derivative financial instruments | 0.1 | 16.2 | - | 16.3 |
| | **2,060.0** | **1,411.7** | **80.9** | **3,552.7** |
| | | | | |
| **Financial assets available-for-sale** | | | | |
| Equity securities | 680.3 | - | 34.7 | 715.0 |
| Debt securities | 11.6 | 2,714.1 | 59.9 | 2,785.6 |
| Mutual funds | 746.9 | 117.4 | 773.2 | 1,637.6 |
| | **1,438.8** | **2,831.5** | **867.8** | **5,138.2** |
| | | | | |
| **Total financial assests measured at fair value** | **3,500.1** | **4,350.3** | **948.7** | **8,799.1** |

FINANCIAL LIABILITIES 31.12.2012

| EUR million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Derivative financial instruments** | | | | |
| Interest rate swaps | - | -1.6 | - | -1.6 |
| Other interest rate derivatives | - | -1.5 | - | -1.5 |
| Foreign exchange derivatives | - | -2.0 | - | -2.0 |
| Equity derivatives | - | - | - | 0.0 |
| **Total financial liabilities measured at fair value** | **0.0** | **-5.1** | **-** | **-5.1** |

## SENSITIVITY ANALYSIS OF FAIR VALUES

10 percentage point depreciation of all other currencies against EUR would result in an effect recognised in profit/loss of EURm 14 and in an effect recognised directly in equity of EURm 68.

The sensitivity analysis of the Group's fair values of financial assets and liabilities in differenct market risk scenarios is presented below. The effects represent the instantaneous effects of a one-off change in the underlying market variable on the fair values on 31 Dec. 2013.

The sensitivity analysis includes the effects of derivative positions. All sensitivities are calculated before taxes.

| | **Interest rate** | | **Equity** | **Other financial investments** |
|---|---|---|---|---|
| EUR million | 1 % parallel shift down | 1 % parallel shift up | 20 % fall in prices | 20 % fall in prices |
| Effect recognised in profit/loss | -5 | -10 | 0 | -4 |
| Effect recognised directly in equity | 58 | -56 | -290 | -144 |
| **Total effect** | **52** | **-66** | **-290** | **-148** |

### 15 MOVEMENTS IN LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

### FINANCIAL ASSETS 2013

| EUR million | At Jan. 2013 | Total gains/ losses in income statement | Total gains/ losses recorded in other comprehensive income | Purchases | Sales | Transfers between levels 1 and 2 | At 31 Dec. 2013 | Gains/losses included in p/l for financial assets 31 Dec. 2013 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets designated at fair value through profit or loss** | | | | | | | | |
| Debt securities | | | | | | | | |
| **Financial assets related to unit-linked insurance** | | | | | | | | |
| Equity securities | 13.9 | -0.6 | - | 5.0 | -4.3 | 0.0 | 13.9 | -0.5 |
| Debt securities | 17.3 | 1.0 | - | 2.0 | -1.5 | - | 18.8 | 0.8 |
| Mutual funds | 49.7 | 3.6 | - | 24.0 | -13.3 | 0.0 | 63.9 | 3.4 |
| | **80.9** | **4.0** | **0.0** | **30.9** | **-19.1** | **0.0** | **96.7** | **3.7** |
| **Financial assets available-for-sale** | | | | | | | | |
| Equity securities | 34.7 | -4.7 | 1.6 | 8.6 | -0.2 | - | 40.0 | -3.1 |
| Debt securities | 59.9 | 8.7 | -15.4 | 3.7 | -19.7 | - | 37.2 | -15.4 |
| Mutual funds | 773.2 | -23.8 | 45.7 | 132.9 | -267.9 | - | 660.2 | 18.9 |
| | **867.8** | **-19.8** | **31.9** | **145.2** | **-287.8** | **0.0** | **737.4** | **0.3** |
| **Total financial assests measured at fair value** | **948.7** | **-15.8** | **31.9** | **176.1** | **-306.9** | **0.0** | **834.1** | **4.0** |

| EUR million | Realised gains | Fair value gains and losses | Total |
|---|---|---|---|
| Total gains or losses included in profir or loss for the financial year | -15.8 | 31.9 | 16.1 |
| Total gains or losses included in profit and loss for assets held at the end of the financial year | -27.8 | 31.9 | 4.0 |

FINANCIAL ASSETS 2012

| EUR million | At Jan. 2012 | Total gains/ losses in income statement | Total gains/ losses recorded in other comprehensive income | Purchases | Sales | Transfers between levels 1 and 2 | At 31 Dec. 2012 | Gains/losses included in p/l for financial assets 31 Dec. 2012 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets designated at fair value through profit or loss** | | | | | | | | |
| Debt securities | | | | | | | | |
| **Financial assets related to unit-linked insurance** | | | | | | | | |
| Equity securities | 0.3 | -0.2 | - | 18.8 | -5.6 | 0.0 | 13.4 | -0.2 |
| Debt securities | 0.1 | 0.8 | - | 16.5 | -0.1 | - | 17.3 | 0.8 |
| Mutual funds | 62.2 | 1.6 | - | 31.1 | -44.7 | 0.0 | 50.2 | 2.2 |
| | **62.7** | **2.3** | **0.0** | **66.4** | **-50.4** | **0.0** | **80.9** | **2.9** |
| **Financial assets available-for-sale** | | | | | | | | |
| Equity securities | 38.2 | 0.0 | -0.7 | 1.9 | -4.6 | - | 34.8 | -0.7 |
| Debt securities | 58.6 | -0.2 | -2.1 | 3.6 | 0.0 | - | 59.8 | -2.4 |
| Mutual funds | 759.8 | 4.4 | 11.2 | 167.6 | -169.7 | - | 773.2 | 14.7 |
| | **856.5** | **4.1** | **8.4** | **173.1** | **-174.3** | **0.0** | **867.9** | **11.6** |
| **Total financial assests measured at fair value** | **919.2** | **6.4** | **8.4** | **239.5** | **-224.7** | **0.0** | **948.8** | **14.5** |

| EUR million | Realised gains | Fair value gains and losses | Total |
|---|---|---|---|
| Total gains or losses included in profir or loss for the financial year | 6.4 | 8.4 | 14.8 |
| Total gains or losses included in profit and loss for assets held at the end of the financial year | 6.6 | 7.9 | 14.5 |

## 16 SENSITIVITY ANALYSIS OF LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

| EUR million | 2013 Carrying amount | 2013 Effect of reasonably possible alternative assumptions (+ / -) | 2012 Carrying amount | 2012 Effect of reasonably possible alternative assumptions (+ / -) |
|---|---|---|---|---|
| **Financial assets** | | | | |
| | | | | |
| **Financial assets related to unit-linked insurance and investment contracts** | | | | |
| Equity securities | 13.9 | - | 13.4 | - |
| Debt securities | 18.8 | | 17.3 | |
| Mutual funds | 63.9 | | 49.7 | |
| **Total** | **96.7** | **0.0** | **80.4** | **0.0** |
| | | | | |
| **Financial assets available-for-sale** | | | | |
| Equity securities | 40.0 | -8.0 | 34.7 | -6.9 |
| Debt securities | 37.2 | -1.3 | 59.9 | -1.9 |
| Mutual funds | 660.2 | -132.0 | 773.4 | -154.7 |
| **Total** | **737.4** | **-141.3** | **868.0** | **-163.5** |
| | | | | |
| **Total financial assests measured at fair value** | **834.1** | **-141.3** | **948.4** | **-163.5** |

The value of financial assets regarding the debt security instruments has been tested by assuming a rise of 1 per cent unit in interest rate level in all maturities. For other financial assets, the prices were assumed to go down by 20%. The Mandatum Life Group bears no investment risks related to unit-linked insurance, so a change in assumptions regarding these assets does not affect profit or loss. On the basis of the these alternative assumptions, a possible change in interest levels would cause descent of EURm 1.3 (1.9) for the debt instruments, and EURm 140.0 (161.6) valuation loss for other instruments in the Group's other comprehensive income. The reasonably possible effect, proportionate to the Group's equity, would thus be 11.2% (14.3).

## 17 INVESTMENTS RELATED TO UNIT-LINKED INSURANCE CONTRACTS

| EUR million | 2013 | 2012 |
|---|---|---|
| **Financial assets designated at fair value through p/l** | | |
| **Debt securities** | | |
| Issued by public bodies | 46.9 | 33.6 |
| Certificates of deposit issued by banks | 222.9 | 207.3 |
| Other debt securities | 831.7 | 584.8 |
| **Total** | **1,101.5** | **825.7** |
| | | |
| **Equity securities** | | |
| Listed | 3,289.6 | 2,702.0 |
| Unlisted | 22.5 | 8.7 |
| **Total** | **3,312.0** | **2,710.7** |
| | | |
| **Loans and other receivables** | 183.0 | 281.2 |
| | | |
| **Other financial asset** | 26.3 | 16.3 |
| | | |
| **Investment related to unit-linked contracts, total** | **4,622.9** | **3,833.8** |

The historical cost of the equity securities related to unit-linked contracts was EURm 2,646.0 (2,460.0) and that of the debt securities EURm 1,089 (775.5).

## 18 DEFERRED TAX ASSETS AND LIABILITIES

### CHANGES IN DEFERRED TAX DURING THE FINANCIAL PERIOD 2013

| EUR million | 1.1. | Recognised in comprehensive income statement | Recognised in equity | 31.12. |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Losses from previous years | 3.3 | -0.8 | | 2.5 |
| Changes in fair values | 0.0 | - | | 0.0 |
| Pension liabilities | 0.0 | - | | 0.0 |
| Other deductible temporary differences | 1.5 | 1.1 | | 2.6 |
| **Total** | **4.8** | **0.2** | **0.0** | **5.0** |
| Netting of deferred taxes | | | | -4.9 |
| **Deferred tax assets in the balance sheet** | | | | **0.1** |
| | | | | |
| **Deferred tax liabilities** | | | | |
| Depreciation differences and untaxed reserves | 6.2 | -0.7 | -0.3 | 5.2 |
| Changes in fair values | 151.6 | -20.2 | -3.7 | 127.7 |
| Other taxable temporary differences | 0.0 | - | - | 0.0 |
| **Total** | **157.8** | **-20.9** | **-4.0** | **132.9** |
| Netting of deferred taxes | | | | 4.9 |
| **Total deferred tax liabilities in the balance sheet** | | | | **128.0** |

### CHANGES IN DEFERRED TAX DURING THE FINANCIAL PERIOD 2012

| EUR million | 1.1. | Recognised in comprehensive income statement | Recognised in equity | 31.12. |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Losses from previous years | 0.1 | 3.2 | | 3.3 |
| Changes in fair values | 0.0 | - | | 0.0 |
| Pension liabilities | 0.0 | - | | 0.0 |
| Other deductible temporary differences | 15.4 | -13.9 | | 1.5 |
| **Total** | **15.5** | **-10.7** | **0.0** | **4.8** |
| Netting of deferred taxes | | | | -4.7 |
| **Deferred tax assets in the balance sheet** | | | | **0.1** |
| | | | | |
| **Deferred tax liabilities** | | | | |
| Depreciation differences and untaxed reserves | 6.3 | -0.1 | - | 6.2 |
| Changes in fair values | 94.5 | -0.4 | 57.6 | 151.6 |
| Other taxable temporary differences | 0.0 | - | - | 0.0 |
| **Total** | **100.8** | **-0.6** | **57.6** | **157.8** |
| Netting of deferred taxes | | | | -4.7 |
| **Total deferred tax liabilities in the balance sheet** | | | | **153.1** |

EURm 4.1 of deferred tax asset has not been recognised on unused tax losses.  First losses will expire in 2021.

## 19 TAXES

| EUR million | 2013 | 2012 |
|---|---|---|
| Profit before tax | 152.7 | 136.1 |
| | | |
| Tax calculated at parent company's tax rate | 37.4 | 33.4 |
| Different tax rates on overseas earnings | 0.1 | -0.3 |
| Income not subject to tax | -3.1 | -2.6 |
| Expenses not allowable for tax purposes | 0.0 | 0.0 |
| Consolidation procedures and eliminations | 2.5 | -0.4 |
| Changes in tax rates | -3.6 | - |
| Tax from previous years | 0.1 | -2.3 |
| **Total** | **33.5** | **27.8** |

## 20 COMPONENTS OF OTHER COMPREHENSIVE INCOME

| EUR million | 2013 | 2012 |
|---|---|---|
| **Other comprehensive income items reclassifiable to profit or loss** | | |
| Exchange differences | 0.0 | 0.0 |
| Available-for-sale financial assets | | |
| Gains/losses arising during the year | 96.9 | 236.2 |
| Cash flow hedges | | |
| Gains/losses arising during the year | -0.3 | -1.2 |
| Income tax relating to components of other comprehensive income | 4.0 | -57.6 |
| **Total items reclassifiable to profit or loss, net of tax** | **100.6** | **177.4** |

## 21 TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| EUR million | Before-tax amount | Tax | Net-of-tax amount | Before-tax amount | Tax | Net-of-tax amount |
| Exchange differences | 0.0 | - | 0.0 | 0.0 | - | 0.0 |
| Available-for-sale financial assets | 96.9 | -19.4 | 77.5 | 236.2 | -57.9 | 178.3 |
| Cash flow hedges | -0.3 | 0.1 | -0.3 | -1.2 | 0.3 | -0.9 |
| Changes in tax rates | - | 23.3 | 23.3 | - | - | - |
| **Total** | **96.7** | **4.0** | **100.6** | **235.0** | **-57.5** | **177.4** |

## 22 OTHER ASSETS

| EUR million | 2013 | 2012 |
|---|---|---|
| Interests | 36.0 | 45.2 |
| Receivables from policyholders | 3.1 | 5.8 |
| Assets arising from reinsurance operations | 1.3 | 0.4 |
| Settlement receivables | 7.8 | 5.9 |
| Taxes | 0.1 | 19.2 |
| Other | 33.0 | 33.1 |
| **Other assets, total** | **81.3** | **109.6** |

Item Other comprise e.g. receivables  pensions paid in advance and receivables from co-operating companies.

## 23 CASH AND CASH EQUIVALENTS

| EUR million | 2013 | 2012 |
|---|---|---|
| Cash at bank and in hand | 178.6 | 98.9 |
| Short-term deposits (max 3 months) | 43.5 | 55.0 |
| **Total** | **222.1** | **153.9** |

## 24 LIABILITIES FROM INSURANCE AND INVESTMENT CONTRACTS

### CHANGE IN LIABILITIES ARISING FROM OTHER THAN UNIT-LINKED INSURANCE AND INVESTMENT CONTRACTS

| EUR million | Insurance contracts | Investment contracts | Total |
|---|---|---|---|
| **At 1 Jan. 2013** | **4,065.2** | **5.6** | **4,070.8** |
| Premiums | 159.3 | 0.1 | 159.3 |
| Claims paid | -395.7 | -0.7 | -396.4 |
| Expense charge | -36.6 | 0.0 | -36.7 |
| Guaranteed interest | 139.3 | 0.1 | 139.4 |
| Bonuses | 2.9 | 0.0 | 2.9 |
| Other | -10.7 | -1.2 | -11.9 |
| **At 31 Dec. 2013** | **3,923.7** | **3.8** | **3,927.5** |
| Reinsurers' share | -2.8 | 0.0 | -2.8 |
| **Net liability at 31 Dec. 2013** | **3,920.9** | **3.8** | **3,924.7** |

| EUR million | Insurance contracts | Investment contracts | Total |
|---|---|---|---|
| **At 1 Jan. 2012** | **4,242.1** | **6.5** | **4,248.6** |
| Premiums | 171.8 | 0.3 | 172.1 |
| Claims paid | -424.9 | -0.6 | -425.5 |
| Expense charge | -37.7 | 0.0 | -37.8 |
| Guaranteed interest | 147.9 | 0.1 | 148.0 |
| Bonuses | 3.2 | 0.0 | 3.2 |
| Other | -37.3 | -0.6 | -37.9 |
| **At 31 Dec. 2012** | **4,065.2** | **5.6** | **4,070.8** |
| Reinsurers' share | -3.4 | 0.0 | -3.4 |
| **Net liability at 31 Dec. 2012** | **4,061.8** | **5.6** | **4,067.4** |

### CHANGE IN LIABILITIES ARISING FROM UNIT-LINKED INSURANCE AND INVESTMENT CONTRACTS

| EUR million | Insurance contracts | Investment contracts | Total |
|---|---|---|---|
| **At 1 Jan. 2013** | **2,664.6** | **1,168.5** | **3,833.1** |
| Premiums | 469.2 | 439.5 | 908.7 |
| Claims paid | -172.8 | -171.9 | -344.6 |
| Expense charge | -35.7 | -18.4 | -54.1 |
| Other | 169.4 | 104.2 | 273.6 |
| **At 31 Dec. 2013** | **3,094.7** | **1,521.9** | **4,616.6** |

| EUR million | Insurance contracts | Investment contracts | Total |
|---|---|---|---|
| **At 1 Jan. 2012** | **2,216.0** | **838.3** | **3,054.2** |
| Premiums | 421.4 | 389.1 | 810.5 |
| Claims paid | -165.4 | -123.3 | -288.7 |
| Expense charge | -31.9 | -14.4 | -46.3 |
| Other | 224.6 | 78.8 | 303.4 |
| **At 31 Dec. 2012** | **2,664.6** | **1,168.5** | **3,833.1** |

The liabilities at 1 Jan. and at 31 Dec. include the future bonus reserves and the effect of the reserve for the decreased discount rate. The calculation is based on items before reinsurers' share. A more detailed specification of changes in insurance liabilities is presented in Group's Risk Management.

### INSURANCE CONTRACTS

| EUR million | 2013 | 2012 |
|---|---|---|
| **Insurance contracts** | | |
| Liabilities for contracts with discretionary participation feature (DPF) | | |
| Provision for unearned premiums | 1,968.7 | 2,089.8 |
| Provision for claims outstanding | 1,948.5 | 1,972.3 |
| Liabilities for contracts without discretionary participation feature (DPF) | | |
| Provision for unearned premiums | 0.2 | 0.2 |
| Provision for claims outstanding | 0.8 | 1.0 |
| **Total** | **3,918.2** | **4,063.3** |
| | | |
| Assumed reinsurance | | |
| Provision for unearned premiums | 3.7 | 0.7 |
| Provision for claims outstanding | 1.8 | 1.2 |
| **Total** | **5.5** | **1.9** |
| | | |
| Insurance contracts total | | |
| Provision for unearned premiums | 1,972.6 | 2,090.7 |
| Provision for claims outstanding | 1,951.0 | 1,974.5 |
| **Total** | **3,923.7** | **4,065.2** |
| | | |
| **Investment contracts** | | |
| Liabilities for contracts with discretionary participation feature (DPF) | | |
| Provision for unearned premiums | 3.8 | 5.6 |
| | | |
| **Liabilities for insurance and investment contracts total** | | |
| Provision for unearned premiums | 1,976.4 | 2,096.3 |
| Provision for claims outstanding | 1,951.0 | 1,974.5 |
| **Life insurance total** | **3,927.5** | **4,070.8** |
| | | |
| **Reinsurers' share** | | |
| Provision for unearned premiums | 0.0 | 0.0 |
| Provision for claims outstanding | -2.8 | -3.4 |
| **Total** | **-2.8** | **-3.4** |

Investment contracts do not include a provision for claims outstanding.

Liability adequacy test does not give rise to supplementary claims.

Exemption allowed in IFRS 4 Insurance contracts has been applied to investment contracts with DPF or contracts with a right to trade-off for an investment contract with DPF. These investment contracts have been valued like insurance contracts.

## 25 LIABILITIES FROM UNIT-LINKED INSURANCE AND INVESTMENT CONTRACTS

| EUR million | 2013 | 2012 |
|---|---|---|
| Unit-linked insurance contracts | 3,094.7 | 2,664.6 |
| Unit-linked investment contracts | 1,521.9 | 1,168.5 |
| **Total** | **4,616.6** | **3,833.1** |

## 26 FINANCIAL LIABILITIES

The  financial liabilities include derivatives, debt securities and other financial liabilities.

| EUR million | 2013 | 2012 |
|---|---|---|
| **Derivative financial instruments** (note 15) | 10.8 | 5.1 |
| | | |
| **Subordinated debt securities** | | |
| Subordinated loans | 100.0 | 100.0 |
| | | |
| **Life insurance, total** | **110.8** | **105.1** |

Mandatum Life issued in 2002 EURm 100 Capital Notes. The loan is perpetual and pays floating rate interest. The interest is payable only from distributable capital. The loan is repayable only with the consent of the Insurance Supervisory Authority and at the earliest on 2012 or any interest payment date after that. The loans is wholly subscribed by Sampo Plc.

## 27 EMPLOYEE BENEFITS

**Employee benefits**
In addition to statutory retirement pension insurance, the Group has certain voluntary defined benefit plans. The voluntary defined benefit plans are intra-Group and included in the insurance liabilities of Mandatum Life. The amount is negligible and they have no material impact on the Group profit or loss or equity.

**Other short-term employee benefits**
There are other short-term staff incentive schemes in the Group, the terms of which vary each year. Benefits are recognised in the profit or loss for the year they arise from. An estimated amount of these profit-sharing bonuses for 2013 is EURm 3.3.

## 28 OTHER LIABILITIES

| EUR million | 2013 | 2012 |
|---|---|---|
| Interests | 7.1 | 9.4 |
| Tax liabilities | 17.5 | 0.0 |
| Liabilities arising out of direct insurance operations | 5.6 | 5.5 |
| Liabilities arising out of reinsurance operations | 4.8 | 4.6 |
| Settlement liabilities | 25.8 | 3.8 |
| Guarantees received | 31.1 | 121.8 |
| Other liabilities | 36.8 | 32.4 |
| **Total** | **128.8** | **177.4** |

Item Guarantees received comprise assets accepted as guarantees required in derivative trading and securities lending.
Item Other includes e.g. liabilities arising from withholding taxes and social security costs, liabilities to creditors and insurance premium advances.

## 29 CONTINGENT LIABILITIES AND COMMITMENTS

| EUR million | **2013** | 2012 |
|---|---|---|
| **Off-balance sheet items** | | |
| Fund commitments | 390.7 | 367.2 |
| Acquisition of IT-software | 3.0 | 0.7 |
| **Total** | **393.7** | **367.9** |
| | | |
| **Assets pledged as security for derivative contracts** | | |
| Cash | 5.8 | 5.5 |

The pledged assets are included in the balance sheet item Other assets.

| | | |
|---|---|---|
| **Lended securities** | | |
| Domestic shares | | |
| Remaining acquisition cost | 14.4 | 66.6 |
| Fair value | 4.1 | 53.4 |

Security lendings can be interrupted at any time and they are secured.

### COMMITMENTS FOR NON-CANCELLABLE OPERATING LEASES

| EUR million | **2013** | 2012 |
|---|---|---|
| **Minimum lease payments** | | |
| not later than one year | 1.9 | 2.3 |
| later than one year and not later than five years | 8.1 | 2.9 |
| over five years | 8.8 | - |
| **Total** | **18.8** | **5.2** |
| | | |
| Total of sublease payments expected to be received under non-cancellable operating sub-leases at 31 Dec. | 0.8 | 0.8 |
| | | |
| Lease and sublease payments recognised as an expense in the period | | |
| minimum lease payments | -2.7 | -3.1 |
| sublease payments | 0.2 | 0.2 |
| **Total** | **-2.5** | **-2.9** |

The Group had at the end of 2013 premises a total of 9,705 $m^2$ (9,711) taken as a lessee. The contracts have been made mainly for 3 to 10 years. The Group has subleased 776 $m^2$ (776) of these premises.

## 30 EQUITY AND RESERVES

**Equity**
The number of shares at 31 Dec. 2013 was 239,998 (239,998). There was no change in the company's share capital of EURm 40.4 during the financial year. At the end of the financial year 2013, the mother company or other Group companies held no shares in the parent company.

**Reserves and retained earnings**

**Share premium reserve**
The reserve include the issue price of shares to an extent it was not recorded in share capital by an express decision. There was no change in the share premium reserve EURm 98.9 during the financial year 2013.

**Legal reserve**
The legal reserve EURm 30.1 comprises the amounts that has been transferred from the distributable equity on the basis of the decision of the AGM.

**Other components of equity**
Other components of equity include fair value changes of financial assets available for sale and derivatives used in cash flow hedges, and exchange differences.

Changes in the reserves and retained earnings are presented in the Group's statement of changes in equity in page 12.

## 31 RELATED PARTY DISCLOSURES

### KEY MANAGEMENT PERSONNEL

The key management personnel in Mandatum Life consists of the members of the Board of Directors of Mandatum Life Insurance Company Limited and Mandatum Life's Executive Committee.

| EUR million | **2013** | 2012 |
|---|---|---|
| **Key management compensation** | | |
| | | |
| Short-term employee benefits | 1.9 | 1.9 |
| Post employment benefits | 0.4 | 0.5 |
| Other long-term benefits | 2.8 | 1.7 |
| **Total** | **5.1** | **4.0** |

Short-term employee benefits comprise salaries and other short-terms benefits, including profit-sharing bonuses accounted for for the year, and social security costs.

Post employment benefits include pension benefits under the Employees' Pensions Act (TyEL) in Finland and voluntary supplementary pension benefits.

Other long-term benefits consist of the benefits under long-term incentive schemes accounted for the year. The benefits are determined by terms on Group level. Mandatum Life pays the benefits allocated to its key management (note 32).

**Related party transactions of the key management**

The related party transactions of the key management are not material nor does the key management have any loans from the Group companies.

### ASSOCIATES

| EUR million | **2013** | 2012 |
|---|---|---|
| **Outstanding balances with related parties** | | |
| | | |
| Debt securities, available for sale | 37.2 | 35.9 |
| Other assets | 3.3 | 2.5 |

## 32 INCENTIVE SCHEMES

### LONG-TERM INCENTIVE SCHEMES

The Board of Directors for Sampo plc has decided on the long-term incentive schemes 2009 I and 2011 I for the management and experts of the Sampo Group. The Board has authorised the CEO, to decide who will be included in the scheme, as well as the number of calculated bonus units granted for each individual used in determining the amount of the performance-related bonus. In Mandatum Life Group, a little less than 20 persons included in the schemes at the end of year 2013.

The amount of the performance-related bonus is based on the value performance of Sampo's A share and on the insurance margin (IM) and, regarding the 2011 I scheme, also on Sampo's return on the risk adjusted capital (RORAC). The value of one calculated bonus unit is the trade-weighted average price of Sampo's A-share at the time period specified in the terms of the scheme, and reduced by the starting price adjusted with the dividends per share distributed up to the payment date. The pre-dividend starting prices vary between eur 16.49 - 24.07. The maximum value of one bonus unit varies between eur 28.49 - 39.07, reduced by the dividend-adjusted starting price. In the 2011 I scheme, the bonus depends on two benchmarks. The payout is 70 per cent, if the IM is 6 per cent or more, and 35 per cent, if the IM is between 4 - 5.99 per cent. No IM-related bonus will be paid out, if the IM stays below these. In addition, the return on the risk adjusted capital is taken into account so that a bonus of 30 per cent is paid out, if the return is, in the minimum, a riskless return + 4 per cent. If the return is a riskless return + 2 percent, but less than a riskless return + 4 percent, the payout is 15 per cent. If the return stays below these benchmarks, no RORAC-based bonus will be paid out.

Each plan has three performance periods and bonuses are settled in cash in three installments. In the scheme 2009 I when the bonus is paid, the employee shall buy Sampo's A-shares at the first possible opportunity, taking into account the provisions on insiders, with 30 per cent of the amount of the bonus after taxes and other comparable charges, and in the scheme 2009 I to keep the shares in his/her possession for 2 years. In the 2011 I scheme, the employee shall authorise Sampo plc to acquire the Sampo A shares for him/her, with 60 per cent of the amount of bonus received. The shares are subject to transfer restrictions for three years from the day of payout. A premature payment of the bonuses may occur in the event of changes in the group structure or in the case of employment termination on specifically determined bases. The fair value of the incentive schemes is estimated by using the Black-Scholes princing model.

| | 2009 I | 2011 I | 2011 I/2 |
|---|---|---|---|
| Terms approved *) | 27.8.2009 | 14.9.2011 | 14.9.2011 |
| Granted (1,000) 31 Dec. 2010 | 600 | - | - |
| Granted (1,000) 31 Dec. 2011 | 371 | 595 | - |
| Granted (1,000) 31 Dec. 2012 | 186 | 595 | 10 |
| Granted (1,000) 31 Dec. 2013 | - | 585 | 10 |
| | | | |
| End of performance period I 30% | Q2-2011 | Q2-2014 | Q2-2015 |
| End of performance period II 35% | Q2-2012 | Q2-2015 | Q2-2016 |
| End of performance period III 35% | Q2-2013 | Q2-2016 | Q2-2017 |
| Payment I 30% | 9-2011 | 9-2014 | 9-2015 |
| Payment II 35% | 9-2012 | 9-2015 | 9-2016 |
| Payment III 35% | 9-2013 | 9-2016 | 9-2017 |
| | | | |
| Price of Sampo A at terms approval date *) | 16.74 | 18.10 | 18.10 |
| Starting price **) | 16.49 | 18.37 | 24.07 |
| Dividend-adjusted starting price at 31 Dec. 2013 | 13.14 | 15.82 | 22.72 |
| | | | |
| Sampo A - closing price 31 Dec. 2013 | 35.72 | | |
| | | | |
| Total intrinsic value, meur | - | 5.3 | 0.0 |
| | | | |
| Total cost for the financial period, meur | 5.4 | | |
| | | | |
| *) Grant dates vary | | | |
| **) Trade-weighted average for ten trading days from the approval of terms | | | |

## 33 AUDITORS' FEES

| EUR million | 2013 | 2012 |
|---|---|---|
| Auditing fees | -0.3 | -0.3 |
| Other fees | -0.1 | -0.4 |
| **Total** | **-0.4** | **-0.6** |

## 34 LEGAL PROCEEDINGS

There are legal proceedings against Mandatum Life outstanding on 31 December 2013, arising in the ordinary course of business. Professional advice indicates that it is unlikely that any significant losses will arise.

## 35 EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors proposes to the Annual General Meeting that 100 million euros dividend will be paid.

## 36 INVESTMENTS IN SUBSIDIARIES

| | Country | Holding % | Voting rights % |
|---|---|---|---|
| **Name** | | | |
| Asunto Oy Nastolan Niinitie 34 | Finland | 89.55 | 89.55 |
| Asunto Oy Nastolan Niinitie 36 | Finland | 89.55 | 89.55 |
| Asunto Oy Nastolan Niinitie 42 | Finland | 89.55 | 89.55 |
| Asunto Oy Nastolan Niinitie 50 | Finland | 89.55 | 89.55 |
| Asunto Oy Nastolan Niinitie 52 | Finland | 89.55 | 89.55 |
| Asunto Oy Nastolan Upon Asunnot Oy | Finland | 100.00 | 100.00 |
| Hervannan Vuokratontit Oy | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Aapelinkatu 6 | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Ahti Business Park | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Hyvinkään Sampotalo | Finland | 81.37 | 81.37 |
| Kiinteistö Oy Hämeenlinnan Karhulinna | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Jäkälävaara | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Järvenpään Asemakatu 4 | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Kaupintie 5 | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Laurin-Salpa | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Leppävaaran Säästötammi | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Matinkatu 8 | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Niittymaanpolku | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Oulun Torikatu 21-23 | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Rautalaani | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Satomaininki | Finland | 100.00 | 100.00 |
| Kiinteistö Oy Tampereen Hatanpäänvaltie 18 | Finland | 100.00 | 100.00 |
| Innova Henkilöstörahasto- ja Eläkepalvelut Oy | Finland | 100.00 | 100.00 |
| Mandatum Life Insurance Baltic SE | Estonia | 100.00 | 100.00 |

## 37 INVESTMENTS IN SHARES AND PARTICIPATIONS OTHER THAN SUBSIDIARIES AND ASSOCIATES

LISTED COMPANIES

| EUR million | Country | No. of shares | Holding % | Carrying amount/ Fair value |
|---|---|---|---|---|
| Amer Sports Plc | Finland | 4,000,000 | 3.38% | 60.5 |
| Comptel Plc | Finland | 20,532,625 | 19.18% | 9.9 |
| Elecster Plc A | Finland | 117,000 | 6.43% | 0.7 |
| eQ Plc | Finland | 2,053,296 | 5.63% | 4.7 |
| Fortum Plc | Finland | 4,954,834 | 0.56% | 82.4 |
| F-Secure Plc | Finland | 6,674,081 | 4.20% | 12.5 |
| Kemira Plc | Finland | 1,279,880 | 0.82% | 15.6 |
| Lassila & Tikanoja Plc | Finland | 2,181,238 | 5.62% | 33.2 |
| Metso Plc | Finland | 1,487,381 | 0.99% | 35.4 |
| Nokia Plc | Finland | 1,500,000 | 0.04% | 8.7 |
| Nokian Renkaat Plc | Finland | 1,099,757 | 0.83% | 38.3 |
| Norvestia Plc B | Finland | 1,789,538 | 12.41% | 12.6 |
| Oriola-KD Plc B | Finland | 3,000,000 | 2.88% | 7.7 |
| Pöyry Plc | Finland | 2,075,287 | 3.47% | 8.5 |
| Suominen Plc | Finland | 20,759,500 | 8.37% | 10.0 |
| Teleste Plc | Finland | 1,679,200 | 8.92% | 7.1 |
| Tikkurila Plc | Finland | 1,577,079 | 3.58% | 31.4 |
| UPM-Kymmene Plc | Finland | 9,531,219 | 1.80% | 117.0 |
| Vaisala Plc A | Finland | 629,250 | 4.24% | 14.6 |
| Valmet Corp | Finland | 1,487,381 | 0.99% | 10.7 |
| Wärtsilä Plc | Finland | 1,018,119 | 0.52% | 36.4 |
| YIT Plc | Finland | 4,370,951 | 3.44% | 44.4 |
| **Total** | | | | **602.3** |
| | | | | |
| Other listed companies | Finland | 20,312,267 | | 12.2 |
| **Listed companies total** | | | | **614.5** |
| | | | | |
| Unit trusts | | | | |
| Danske Invest Emerging Asia Fund G | Finland | 765,617 | | 22.4 |
| KJK Fund SICAV-SIF Baltic States B1 C | Finland | 4,990 | | 8.6 |
| **Total** | | | | **69.9** |
| | | | | |
| Amanda III Eastern Private Equity L.P. | | | | |
| Amanda IV West L.P. | Finland | 19,305,862 | | 18.8 |
| Capman Real Estate I Ky | Finland | 10,257,479 | | 12.0 |
| Capman Real Estate II Ky | Finland | 6,612,696 | | 8.3 |
| Mandatum Private Equity Fund I L.P. | Finland | 8,042,153 | | 8.1 |
| Sponsor Fund III Ky | Finland | 4,778,688 | | 5.1 |
| **Total** | | | | **67.8** |
| | | | | |
| Other shares and participations | | | | 33.6 |
| **Domestic shares and participations in total** | | | | **785.7** |

| EUR million | Country | No. of shares | Holding % | Carrying amount/ Fair value |
|---|---|---|---|---|
| **Other companies** | | | | |
| BenCo Insurance Holding B.V. | Netherlands | 389,329.00 | 6.49% | 6.0 |
| Pension Corporation Group Limited | Guernsey | 8,706,965.00 | 1.39% | 8.2 |
| Apple Inc | U.S. | 21,120.00 | 0.00% | 8.6 |
| | | | | |
| Foreign unit trusts | | | | |
| Prosperity Cub Fund | Guernsey | | | 52.6 |
| DJ STOXX 600 OPT Healthcare | Ireland | | | 23.2 |
| Aberdeen Global Asia Pacific Equity Fund | Luxembourg | | | 70.3 |
| Danske Invest Europe High Dividend I | Luxembourg | | | 48.2 |
| DB X-Trackers DAX | Luxembourg | | | 31.4 |
| MFS MER-Europe SM COS-I1EUR | Luxembourg | | | 12.6 |
| MFS European Value Fund Z | Luxembourg | | | 41.3 |
| Allianz RCM Europe Equity Growth W | Luxembourg | | | 56.7 |
| Comgest Panda | Luxembourg | | | 37.3 |
| Brummer & Partners Nektar Fund | Sweden | | | 16.2 |
| Unideutschland XS | Germany | | | 18.6 |
| Henderson Gartmore Latin America R | Great Britain | | | 47.7 |
| Investec GSF-Asia Pacific-I | Great Britain | | | 57.6 |
| Ishares Core S&P 500 Index Fund | U.S. | | | 126.8 |
| Technology Select Sect SPDR | U.S. | | | 24.7 |
| | | | | |
| Foreign capital trusts | | | | |
| Fortress Credit Opportunities Fund II (C) L.P. | Cayman Islands | | | 54.8 |
| Fortress Credit Opportunities Fund III (C) L.P. | Cayman Islands | | | 19.7 |
| Avenue Special Situations Fund VI (C-Feeder), L.P. | Cayman Islands | | | 24.8 |
| Financial Credit Investment I, L.P. | Cayman Islands | | | 10.2 |
| Fortress Life Settlement Fund (C) L.P. | Cayman Islands | | | 19.5 |
| Goldman Sachs Loan Partners I Offshore B, L.P. | Cayman Islands | | | 14.5 |
| Goldman Sachs Loan Partners I Offshore Investment Fund L.P. | Cayman Islands | | | 32.3 |
| Highbridge Liquid Loan Opportunities Fund, L.P | Cayman Islands | | | 41.8 |
| Highbridge Principal Strategies - Senior Loan Fund II L.P. | Cayman Islands | | | 5.5 |
| Highbridge Specialty Fund III | Cayman Islands | | | 18.3 |
| Lunar Capital Partners III L.P. | Cayman Islands | | | 5.8 |
| Mount Kellet Capital Partners (Cayman), L.P. | Cayman Islands | | | 30.3 |
| Mount Kellett Capital Partners (Cayman) II, L.P. | Cayman Islands | | | 23.0 |
| Petershill Offshore LP | Cayman Islands | | | 17.4 |
| Russia Partners II, L.P. | Cayman Islands | | | 9.1 |
| Capman Buyout IX Fund A L.P. | Guernsey | | | 9.5 |
| Capman Buyout VIII Fund A L.P. | Guernsey | | | 5.5 |
| EQT Credit (No.1) L.P. | Guernsey | | | 47.5 |
| EQT Credit (No.2) L.P. | Guernsey | | | 16.8 |
| EQT V (No.1) L.P. | Guernsey | | | 6.0 |
| EQT VI (No.1) L.P. | Guernsey | | | 10.0 |
| Gilde Buy-Out Fund III | Guernsey | | | 9.2 |
| Permira IV L.P. 2 | Guernsey | | | 7.4 |
| Activa Capital Fund II FCPR | France | | | 8.8 |
| Verdane Capital VII K/S | Denmark | | | 10.1 |
| Gresham IV Fund L.P. | Great Britain | | | 7.0 |
| M&G Debt Opportunities Fund | Great Britain | | | 15.6 |
| | | | | |
| Other shares and participations | | | | 82.5 |
| **Foreign shares and participations in total** | | | | **1,331.7** |
| | | | | |
| **Shares and participations in total** | | | | **2,117.5** |

Holdings exceeding EUR 5 million and holdings in listed companies exceeding five per cent specified. The table does not include investments covering unit linked insurance and investment contracts.

# Key figures

| EUR million | 2013 IFRS | 2012 IFRS | 2011 IFRS | 2010 IFRS | 2009 IFRS |
|---|---|---|---|---|---|
| Premium income | 1,068.1 | 982.6 | 854.3 | 1,117.0 | 808.9 |
| Expense ratio, % of load income | 105.4% | 112.7% | 107.5% | 110.4% | 109.3% |
| Expense ratio, % of total balance sheet | 1.1% | 1.3% | 1.1% | 1.2% | 1.3% |
| Net investment income at fair value, time-weighted, % | 7.4% | 9.4% | -1.4% | 11.1% | 16.8% |
| Return on assets at fair values, % | 7.6% | 9.7% | -0.8% | 11.1% | 15.4% |
| Solvency margin, % | 27.6% | 27.7% | 20.9% | 25.8% | 18.5% |
| Market share in Finland | 19.2% | 24.5% | 24.9% | 22.0% | 24.9% |
| Average number of staff | 541 | 545 | 521 | 470 | 450 |

SOLVENCY CAPITAL

| EUR million | | | | | |
|---|---|---|---|---|---|
| Capital and reserves | 1,260.1 | 1,140.3 | 854.5 | 1,069.8 | 738.3 |
| Proposed profit distribution | -100.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Valuation difference off balance sheet | 20.7 | 18.8 | 16.0 | 16.5 | 15.8 |
| Subordinated loans | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Intangible assets | -8.5 | -11.0 | -12.0 | -11.8 | -14.2 |
| Deferred tax liabilities in solvency capital | 129.2 | 143.2 | 90.0 | 164.6 | 90.3 |
| **Solvency capital** | **1,401.4** | **1,391.3** | **1,048.6** | **1,339.1** | **930.1** |

TOTAL RESULT

| EUR million | | | | | |
|---|---|---|---|---|---|
| Operating profit | 155.7 | 139.2 | 143.7 | 125.0 | 141.1 |
| Change in fair value reserve (before tax) | 96.6 | 234.9 | -306.2 | 305.9 | 542.8 |
| Change in valuation differences off balance sheet | 1.9 | 2.7 | -0.5 | 0.8 | -5.4 |
| **Total result** | **254.2** | **376.8** | **-163.1** | **431.7** | **678.5** |

RETURN ON INVESTMENTS AT FAIR VALUES

| Return on invested capital, % | | | | | |
|---|---|---|---|---|---|
| Interest bearing investments total | 2.7% | - | - | - | - |
| Loans | 1.3% | 1.7% | 2.2% | 1.5% | 2.0% |
| Bonds | 3.6% | 10.1% | 4.1% | 7.3% | 16.7% |
| Other financial intruments | 0.1% | 1.4% | 1.6% | 0.9% | 2.1% |
| Equity investments total | 17.6% | 10.1% | -9.9% | 20.7% | 29.6% |
| Listed equity | 11.0% | - | - | - | - |
| Capital investments | 18.7% | - | - | - | - |
| Unlisted equity | -0.4% | - | - | - | - |
| Land and buildings | 5.0% | 8.5% | 6.0% | 4.0% | 9.7% |
| Direct real estate investments | 3.6% | - | - | - | - |
| Other real estate investments | 8.2% | - | - | - | - |
| Other investments | 8.1% | 8.3% | 3.5% | 0.0% | 0.0% |
| Total investments | 7.1% | 9.3% | -1.1% | 10.8% | 15.9% |
| **Net investment income at fair values** | **7.1%** | **9.5%** | **-1.0%** | **10.8%** | **15.7%** |

Portfolio total return is 7.4% (2012: 9.4% 2011: -1.4% 2010: 11.1% and 2009: 16.8% ), calculated by using modified Dietz method (time-weighted daily returns).

INVESTMENT PORTFOLIO AT FAIR VALUES

| | Basic allocation | | Risk adjusted allocation | |
|---|---|---|---|---|
| EUR million | **2013** | 2012 | **2013** | 2012 |
| Interest bearing investments total | 3,269 | 3,182 | 2,764 | 3 182 |
| Loans | 18.2 | 22.2 | 18.2 | 22.2 |
| Bonds | 2,700.2 | 2,607.1 | 4,508.3 | 2,134.7 |
| Other financial instruments | 550.7 | 552.5 | -1,762.8 | 1,024.8 |
| Equity investments total | 1,663.5 | 1,867.2 | 1,663.5 | 1,867.2 |
| Listed equity | 1,424.1 | 1,582.5 | 1,424.1 | 1,582.5 |
| Capital investments | 199.3 | 236.0 | 199.3 | 236.0 |
| Unlisted equity | 40.0 | 48.7 | 40.0 | 48.7 |
| Land and buildings | 179.3 | 186.7 | 179.3 | 186.7 |
| Direct real estate investmenst | 114.8 | 115.9 | 114.8 | 115.9 |
| Other real estate investments | 64.5 | 70.8 | 64.5 | 70.8 |
| Other investments | 345.2 | 321.0 | 345.2 | 321.0 |
| **Total investments** | **5,457.0** | **5,556.6** | **4,951.6** | **5,556.6** |

# Calculation of key figures

**Premium income**

Premium income before reinsurers` share

**Expense ratio,% of load income**

$$\frac{\text{(Operating expenses before change in deferred acquisition costs + claims settlement expenses)}}{\text{Load income}} \times 100$$

According to the calculation basis load income is an item meant to cover the operating expenses.
All expense loading components are included in load income. Operating expenses do not include reinsurance commissions.

**Expense ratio,% of total balance sheet**

$$\frac{\text{(Operating expenses before change in deferred acquisition costs + claims settlement expenses)}}{\text{Balance sheet at 1 Jan}} \times 100$$

**Return on investments at fair values**

Investment income at fair values in proportion to invested capital is calculated using the so-called modified Dietz method, under which invested capital is calculated by adding to the opening fair value the cash flows in the period, weighted by the relative share of the lenght of whole period that remains from the transaction date or from the middle of the transaction month to the end of the period.

**Return on assets, % (at fair values)**

(Operating profit
+ interest and expenses on liabilities
+ guaranteed interest on technical provisions
+ change in fair value reserve before tax
+ change in valuation differences on investments, off balance sheet)
――――――――――――――――――――――――――――― x 100
(balance sheet total
- liabilities for unit-linked insurance and investment contracts
+ valuation differences on investments, off balance sheet)
(average at 1 Jan, and 31 Dec. in the denominator)

**Solvency margin, %, IFRS**

Solvency capital to the liabilities of insurance- and investment contacts less 75% of the liabilities of unit linked insurance- and investment contracts (%).

**Market share**

$$\frac{\text{Gross premiums written}}{\text{gross premiums written by all life insurance companies}}$$

# Auditor's report

## To the Annual General Meeting of Mandatum Life Insurance Company Limited

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Mandatum Life Insurance Company Limited for the financial period 1.1. - 31.12.2013. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

## Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

## Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act, the Insurance Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

## Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, February 25, 2014

Ernst & Young Oy
Authorized Public Accountant Firm

Heikki Ilkka
Authorized Public Accountant

Kristina Sandin
Authorized Public Accountant

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